

# A HUNDRED YEARS OF INDIAN COTTON

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time being—one significance, their effect on the prices of cotton. It is from this that they earn their livelihood, make or lose fortunes, little conscious that they, in their turn, are forging the fortunes of millions of cotton cultivators.

Two thousand four hundred years after Herodotus wrote about “the wild trees which bear fleeces as their fruit”, cotton remains the most cultivated money crop of India. During these ages, India has lost its world leadership in the cultivation of cotton. Amongst the big six cotton growing countries, the U.S.A., India, China, Egypt, Brazil, and of late Russia, India now stands second, contributing 15 to 20 per cent. of the world’s cotton crop.

It is still an important commodity in India’s agrarian economy. The bulk of the cultivated land, 80 per cent., is, naturally, devoted to food crops. But amongst the money crops, cotton leads, as the table below illustrates :

Crop	Annual Average 1935-36 to 1939-40					Million acres
Cotton	..	..	..	..	..	24.2
Jute	..	..	..	..	..	2.86
Groundnuts	..	..	..	..	..	7.54
Sugarcane	..	..	..	..	..	3.82

But this is only half the story and fails to reveal the fact that while acreage under cotton was continually expanding till the beginning of the Second World War, that under such an important article of food as rice remained almost stationary.

	Million acres				
	1899-1900	1909-1910	1919-1920	1929-1930	1939-1940
Cotton	..	13.80	21.13	21.57	25.81
Rice	..	73.54	81.01	82.19	83.28

(In 1899-1900 only six Indian States reported as against 50 reporting to-day. Figures for 1939-1940 do not include acreage from Burma.)

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1784, a part of an American cotton cargo shipped to England was seized in Liverpool as contraband, under the belief that cotton could not be the produce of the United States. The imports of Indian cotton had attained considerable importance before any American cotton reached Great Britain.<sup>12</sup>

An impression seems to prevail that the British economic policy in India was till recently a policy of *laissez faire*. The early fiscal policy of the British Government in India perhaps has given rise to this impression. The economic policies pursued by the Government with regard to raw cotton, however, provide instances of probably the most advanced form of State action. The Court of Directors, which was the *de facto* ruling authority of the time, took every conceivable measure to aid and encourage—and even to undertake—the cultivation in India of more and better cotton and its clean marketing to Great Britain. The objective in this regard was clearly enunciated by Lord Ellenborough, the Governor-General, in his letter, dated 31st May 1842, to the Court of Directors. He stated: “that the object is not merely to improve the cotton of India and send it home, better cleaned than heretofore but to grow that improved cotton so extensively and so cheaply as to undersell and supplant the Americans in the English market, and thus make England independent of foreigners for the supply of the raw material at our principal manufacturers.”<sup>13</sup> In 1793 the Directors sent the newly-invented Whitney Saw-gin to Bombay to improve and quicken cotton-ginning. American cotton seed was likewise forwarded to cotton planters with printed instructions, and their translations in Indian languages. In 1829, adulteration of raw cotton was made punishable with two years’ rigorous imprisonment, and the adulterated cotton was liable to be confiscated and burnt. The Government of Bombay announced in 1818 that “the person who shall produce the greatest quantity of cotton of approved quality by a given period in the years 1819 and 1820, from a given quantity of ground, shall be entitled to a premium of Rs. 200.”<sup>14</sup> In 1840 a number of Americans were invited to India to instruct the Company in the cultivation of American cotton. Further, prices

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were guaranteed. So great was the imperial interest in India's raw cotton that a Select Committee of the House of Commons was appointed in 1848 "to inquire into the growth of cotton in India." Lands were granted on lease at low rents, and other facilities were given to British subjects willing to enter upon the cultivation of the staple.

The Select Committee reported that "the East India Company at an early period were impressed with the opinion that up to the present period the vast resources of our Indian Empire in respect of growing cotton that will stand a fair competition with that of the United States have not been fully developed.... So far back as the year 1788, experiments were made under their direction, inquiries were instituted, reports were called for, and seed was distributed to the Natives. In 1813, an American gentleman was engaged to assist the efforts of the Indian Government, and American gins were procured to promote the better cleansing of cotton. Again, in 1818, 1831 and 1836, experiments were made and in 1840 a number of Americans, skilled in the cultivation of cotton, were sent out to India, and experimental farms were established in various portions of the Company's territories. For 60 years past the Court of Directors have taken an interest in this question ; they have expended considerable sums in various attempts to stimulate the growth of cotton in the countries subjected to their rule."<sup>15</sup>

We were thus entreated, aided and encouraged to grow cotton, more cotton and better cotton. That we did, and so successfully that the Second World War—one hundred years after improved cotton seed and American experts were sent to India—faced us with an embarrassing surplus of cotton and an acute shortage of foodgrains!

This history of raw cotton of a hundred years and more is packed with events and episodes of far-reaching significance. Cotton in India has the unique distinction of being the cynosure both of the pre-Industrial Revolution economy of manufactures and the post-Revolution economy of raw materials. As such many

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of the important changes in India's economy owe their birth to raw cotton problems—the chief one being to supply as much of clean, unadulterated cotton to Great Britain as possible. After the Industrial Revolution, India had to be dovetailed into a new economy—not the industrial economy, but the economy of raw materials—and it was raw cotton which bore the brunt of the change. That is why we claim that the economic history of India, and of Bombay in particular, could be read through the economics of raw cotton. The evolution of organised markets, the growth of trade associations, improvements in processing and marketing, and even the development of roads and railways, owe their incentives to the problems of raw cotton.

It is strange that the seed of what is to-day India's most remunerative cash crop should have been sown by an order of the East India Company in 1788, dictated by the requirements of the spinners in Manchester and resulting in the shipment of a consignment of cotton to the United Kingdom.

The East India Cotton Association, which according to the law of primogeniture, has the honour to be the heir to this revealing history, just completes its twenty-fifth year. Its Silver Jubilee is a minor event in the time-worn history of raw cotton. But in this era of speed, we are all, men and institutions, apt to be impatient and inevitably precocious. Hence we look before and after, and what we see so fascinates us that we cannot take off the binoculars till we have surveyed the entire panorama beginning with 1788 when the East India Company ordered a consignment of cotton for the Manchester manufacturers and culminating in the hoisting of the flag of the Indian National Congress on the Cotton Exchange in the heart of the business centre of Bombay, called the Marwari Bazaar.

The Cotton Exchange building, they say, is the tallest in Bombay. You observe a continuous stream of people walking in and out, their minds fixed on one thing—fluctuation in prices of cotton. War or peace, flood or famine, all have for them—for the

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and adverse winds. About 150 B.C., however, they discovered the trade winds, and learnt that a ship could sail eastward in the autumn with the north-west monsoon, and return laden with cotton and other goods in the late spring with the south-east monsoon. The result of this discovery was an immense increase in the cotton cloth trade and in the wealth of India as well as that of Egypt which became the distributor of India's goods. When we read in *Antony and Cleopatra* that

The barge she sat in, like a burnish'd throne,  
Burn'd on the water: the poop was beaten gold;  
Purple the sails, . . . . the oars were silver,  
. . . . For her own person,  
It beggar'd all description: she did lie  
In her pavilion, cloth-of-gold of tissue,

—II. ii.

we may fancy that the sails and the cloth of gold were woven in Gujarat, that the gold of the poop came from the mines of Southern India, and that the silver oars were fashioned by the goldsmiths of Delhi and the Gangetic valley.

These glorious days of King Cotton were followed by days of supplication. The wheel of fortune took a turn and on 1st September 1831, we see "117 Natives of high respectability" from Calcutta address a Petition to the Right Honourable, the Lords of His Majesty's Privy Council for Trade etc., saying that they find "their business nearly superseded by the introduction of the fabrics of Great Britain into Bengal, the importation of which augments every year, to the great prejudice of the native manufactures."<sup>7</sup>

A witness before the Select Committee of the House of Commons (1848) testified that the population of the town of Dacca had fallen from 150,000 to 30,000 or 40,000 and jungle and malaria were fast encroaching upon the town. The debacle continued, and as late as 1913, India imported from the United Kingdom more than 50 per cent. of the cloth that she consumed.

Such, in brief, is the long story of India and King Cotton. King Cotton, as those who deal in it, or write about it, like to call it,

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has played a dominant part in the economic development of the world. In India, which is the accredited home of the cotton plant, the dominant role of cotton in the development of her economy can be more distinctly observed. The Industrial Revolution which inaugurated the new economic era was spun out of raw cotton. Hargreaves's "spinning jenny" and Arkwright's "spinning frame" provided the motive force of the revolution. In India, the consolidation of the political power of the British synchronized with the Industrial Revolution in England. The Revolution, which heralded a period of great economic expansion in the West, put India's economic progress in reverse gear. In terms of cotton, it set in a regression from an era of cotton cloth to one of raw cotton. The Revolution diagonally splits India's economic history into two parts, the one of industrial leadership which preceded it, and the other of raw material producer which followed it, and no commodity illustrates this as graphically as cotton does. Incidentally, the changing fortunes of raw cotton provide a running commentary on Britain's imperial economic policy as well as on Indo-British economic relations. The East India Company came to India with a Royal Charter, in search of Indian calico and muslin. In 1663, when Charles II transferred the fishing village of Bombay to the Company, the Company's policy was to permit "the utmost latitude to weavers of cotton and silk with a view to encouraging manufactures." The Board of Directors sent instructions to "encourage the natives and invite them to come thither (Bombay)." "We should have you put the natives upon making of such calicoes as they are capable of," wrote the Board, "and lest they want cotton for that purpose we would have you to procure the bringing of it, out of the country, or the conveying of it to them by sea."<sup>8</sup>

A hundred years later (1769), the Directors of the same Company instructed Bengal "to encourage the manufacture of raw silk and discourage the manufacture of silk fabrics." As the Select Committee of Parliament on the Administration of Justice observed, the effect of this directive was "to change the whole face of the industrial country, in order to render it a

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field for the produce of crude materials subservient to the manufacturers of Great Britain.”<sup>9</sup> And so began the career of King Cotton, as a subservient to the manufacturers of Manchester.

In 1788, the Court of Directors “in compliance with the wishes of the manufacturers, came to a resolution of importing 500,000 pounds weight of Broach and Surat cotton, or cotton of the produce of Bengal of similar quality.” In their letter, dated 20th August 1788, to the Governor-General in Council, Bengal, they earnestly call his attention “to the article of cotton, with a view to affording every encouragement to its growth and improvement in general, but particularly to the species manufactured into the finer sort of thread in use for the superior goods of the Dacca fabric.”<sup>10</sup>

A Report of the Proceedings of the East India Company in regard to the production of cotton wool provides a good brief summary of what has been said above. “The importance of endeavouring to obtain a supply of cotton wool from the East Indies, for the use of manufacturers of Great Britain, appears to have become a subject of public attention about the latter part of the eighteenth century. The great inventions which had taken place, and the improvement which had been effected in the various kinds of machinery for spinning and weaving, as well as in the arts of bleaching and calico-printing, from the first introduction of Arkwright’s patent spinning machine in 1769 to the establishment of the factory system in 1785, occasioned a constantly increasing demand for the raw material, and increased means of supplying it were consequently sought.”<sup>11</sup>

The inventions of the Industrial Revolution increased immensely Britain’s hunger for raw cotton. In 1764, Britain imported a little less than 4 million lb.; in 1801 the imports had increased to 56 million lb.

Practically till the end of the eighteenth century no source of supply of cotton other than India was known to the world. In

## CHAPTER I

### **GROW MORE COTTON**

FOUR hundred and fifty years before Christ, Herodotus testified that "India had wild trees that bore fleeces as their fruit . . . Of these the Indians made their clothes."<sup>1</sup> Two and a half millenniums after, the statement remains substantially correct. All through this hoary period, the commodity has had several turns in its fortune: its role changed, it played the king as well as the slave, but held the attention of the economic world. The Roman historian Pliny (A.D. 73) complained that every year India was draining the Roman Empire of a hundred million sesterces, equivalent to something like 15 million rupees.<sup>2</sup> In the thirteenth century, Marco Polo observed that "Masulipattam produced the finest and the most beautiful cottons to be found in any part of the world."<sup>3</sup> Baines, in his *History of Cotton Manufacture* (1835) says: "Not more than a century ago cotton fabrics of India were so beautiful and cheap that nearly all the governments of Europe thought it necessary to prohibit or load them with heavy duties, to protect their own manufactures."<sup>4</sup> Daniel De Foe, the British satirist, felt scandalised when he saw "persons of quality dressed in Indian carpets, which, but a few years before, their chambermaids could have thought too ordinary for them." He could not bear the sight of the chintz advance "from being upon the floors to their backs, from foot-cloth to the petticoat."<sup>5</sup> And one Col. Berch bemoaned that one commodity ruined the British more than any other, and that was calico, cloth produced in Calicut. "You encourage thereby trade with heathens who work for penny a day and destroy Christians."<sup>6</sup>

From time immemorial, India was the only country known for its cotton fabrics, the rest of the world being clad mostly in wool. About 300 B.C. Greek merchants commenced to import small quantities of cotton cloth from India, but its sale did not spread quickly as their vessels were in constant danger of pirates



## Editor's Foreword

THE TWENTIETH century has seen a tremendous development in farm mechanization in America. In the rapid advancement made, the tractor holds the key place, and the manner in which it has been adapted to farm needs and working conditions is a tribute to agricultural engineering.

The modern farm tractor constitutes a power plant for the operation of a variety of farm equipment used in crop production. With it the seedbed is prepared, seed planted, growing plants cultivated, and the resulting products harvested, transported, and processed. The tractor also plays an important role in livestock production and does hundreds of miscellaneous jobs at the farmstead, or in the field, which make living for the American farm family more pleasant and profitable.

Because the tractor usually represents the largest single investment in mechanized equipment and because of the hours of continuous operation which it must deliver, efficient practical farmers today are giving careful attention to tractor servicing and maintenance jobs. Experience proves that failure to do so is costly in time, labor, and dollars.

This book has been prepared to assist both young and adult farmers with important tractor servicing and maintenance jobs, to the end that maximum efficient service will be obtained from such power plants. It was written in the interests of satisfactory operation from the standpoint of convenience and economy. A tractor out of adjustment, poorly maintained, and improperly serviced is a liability; properly adjusted, well maintained and properly serviced, it continues to be an asset. On the pages that follow are step-by-step suggestions to the farmer who, as an unspecialized mechanic, is confronted with doing a variety of jobs to ensure the availability of the tractor in good working order whenever needed.

Elmer J. Johnson who coauthored *Machines for the Farm, Ranch, and Plantation* was reared on a Kansas farm and then operated farms in his

home locality. He attended Kansas State College and Colorado A. & M. College, graduating with honors from the latter institution. As teacher of vocational agriculture and Assistant State Supervisor of Agricultural Education in Colorado, he developed successful evening schools in farm mechanics. Mr. Johnson came to the U.S. Office of Education to assist with the National Defense Program and the Food Production War Training Program during World War II. He has served in the Agricultural Education Service of the Office of Education as Federal Agent and at present is Program Planning Specialist.

Alvin H. Hollenberg, the other half of this authorship, is a graduate of Oregon Agricultural College. Much of his experience was gained in California where he was successively the superintendent of a large fruit farm, teacher of vocational agriculture, and then head of the farm-mechanics department of California State Polytechnic College. Mr. Hollenberg also came to the Vocational Division, U.S. Office of Education by way of the National Defense Program and Food Production War Training Program and later became a farm mechanics specialist. Mr. Hollenberg has conducted special summer courses in farm mechanics at the University of Illinois, Utah Agricultural College, Oregon State College, University of Florida, and Pennsylvania State College. He is a member of the American Society of Agricultural Engineers.

It is the sincere hope of the authors and the Editor that *Servicing and Maintaining Farm Tractors* will be helpful to students of agriculture and practical farmers throughout the country.

W. A. Ross

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### *AUTHOR'S NOTE*

I was agreeably surprised when the Chairman of E.I.C.A., Sir Purshotamdas Thakurdas, drew my attention to the rich material concerning the history of India's raw cotton trade. Much of this material is buried in books and documents not easily accessible to the public. I gladly agreed to do a little dusting and, if possible, rescue this rich material from the ravages of time and moths.

The Association wanted a "Souvenir" Volume on the occasion of its Silver Jubilee. It was, however, felt that such a volume would not be an appropriate medium for presenting a rather heavy research data. It was, therefore, decided to divide the work in two parts.

The Association proposed to publish a "Souvenir" Volume of 100 or 125 pages giving a running story of a Hundred Years of Bombay's Cotton Trade and the part played by the E.I.C.A. in its development during the last 25 years. But instead of the usual pictorial review, we decided to give the readers some foretaste of the valuable research material awaiting the attention of students and scholars.

The volume has, therefore, no greater claim than that of a Souvenir. While care is taken to present only carefully ascertained facts, one should not expect from it a complete and an exhaustive history of our cotton trade. The only adventure I have permitted myself is the expression of the view that the economic history of India's raw cotton trade contains in tabloid form the story of India's economic development and incidentally that of the British economic policy. A friend writing on Indian Shipping has given a very apposite sub-title to his book: "A Case History of British Imperialism." I would have liked to steal this title for this book.

As for the bulk of the research material, it is intended to publish it in a series of monographs each dealing with a particular aspect of the trade. This is a difficult and an ambitious task. But I do hope the E.I.C.A. will take up the inspiring lead given by Sir Purshotamdas Thakurdas and will find men to complete this work which, in my humble judgment, promises to be monumental not only for a Trade Association but even for the academic world.

I am very grateful to Sir Purshotamdas Thakurdas for constant encouragement and sympathy. I also relied often on the support and friendship of Sjt. Hiralal Dave. Sjt. D. G. Damle of the E.I.C.A. has worked as much as I have done in the preparation of this book. And, in this, both of us have been greatly helped by Sjt. R. V. Matkari. My thanks are due to the entire staff of the E.I.C.A. for their kind co-operation.

SCHOOL OF ECONOMICS AND SOCIOLOGY  
UNIVERSITY OF BOMBAY

BOMBAY  
*1st December, 1947*

*M. L. D.*

## FOR E W O R D

I cannot say that I have read this book, for it is difficult to find time to read any book thoroughly, and in any event it is not easy to read a manuscript or a proof copy. But I have read parts of the book and found them rather fascinating.

The history of cotton and of textiles is not only the history of the growth of modern industry in India, but in a sense it might be considered the history of India during the past one hundred years. The British policy which dominated India during this period circled round cotton to a large extent. A reader of this book will find not only a great deal of information but will also understand the inner springs of many policies that have powerfully affected India for good or ill. When I think of textiles my mind runs back some thousands of years to the period when India perhaps was the only country producing these textiles and exporting them to distant lands. The early beginnings of civilization are tied up with the manufacture of textiles and history might well be written with this as the leading motif.

We stand at the threshold of a new age. Politically we are at least free to function as we will. But in an even larger sense we are passing through an age of transition and probably the next ten or fifteen years will see great changes as the new atomic age begins to affect our daily lives. But whatever changes come, they have their roots in the present and the past. To-morrow will grow out of to-day just as to-day is an offspring of yesterday. So it is necessary for us to know about yesterday and to understand fully to-day. This book helps us in doing so in regard to an important aspect of our economy, and I commend it to the reader.

NEW DELHI  
17th December, 1947

*Jawaharlal Nehru*



gratefully appreciate the honour done to them by the distinguished Prime Minister of India by his *Foreword* for a volume dealing with one of India's most precious raw materials.

The important part played by the merchants of Bombay in the development of the Cotton Trade as sketched in the following pages may justifiably give them satisfaction, but in my opinion, which is shared by the Directors of the East India Cotton Association, much more remains to be done in developing markets for Indian cotton so as to help in restoring the great glory of the cotton fabrics of ancient India and enhancing the prestige of India all round, adding to the economic strength of the country.

Of the many who have helped in the compilation and final presentation of this Volume, it is difficult to give a complete list, but I must record the Association's warm thanks to the Political and Services Department of the Government of Bombay for allowing its representatives to inspect certain Government records dealing with the Cotton Trade, in their Secretariat Records Office. The Keeper of Records and his staff have been unfailingly courteous as well as prompt in guiding our representatives, and thanks are due to them also.

THE COTTON EXCHANGE  
BOMBAY, 30th December, 1947

PURSHOTAMDAS THAKURDAS  
*President*

~~P. 150. 0~~

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## ACKNOWLEDGEMENT

THE Board of the East India Cotton Association, Ltd., felt about October 1944 that the occasion of the completion of a century of arrivals of cotton in Bombay for either local sale or shipments abroad, should be utilized to trace the development of raw cotton trade in the vast country comprising what is now known as the "Union of India" and "Pakistan." The completion of this century coincides with the Silver Jubilee of the East India Cotton Association, a body which has been the last, so far, to play an important part in the evolution of the cotton trade for handling, marketing and distribution of raw cotton. Owing to the unprecedented upheaval in the political and economic life resulting from the World War which began in 1939, the Board decided to forgo any spectacular celebration on the occasion of these two landmarks. They, however, felt that all records in connection with the starting and development of the Cotton Trade in India should be got together and put at the disposal, preferably of a recognised economist, to present a connected narrative.

The efforts of the Author of this Souvenir Volume, Mr M. L. Dantwala, Reader in Agricultural Economics in the University of Bombay, are highly appreciated by the Board of Directors of this Association. He has skilfully utilized the vast material that the Association supplied him with, and painted, with an expert hand, a great picture of "*A Hundred Years of Indian Cotton*" on a small canvas. Mr Dantwala richly deserves the Board's thanks for his able services to India's cotton literature.

Many in the Association feared that the most suitable person to give a *Foreword* to this Volume, who undoubtedly is Independent India's first Prime Minister, may not find time in the midst of his many and urgent preoccupations even to peruse the manuscript. They, however, were very happy to see the response from the Hon'ble Pandit Jawaharlal Nehru. The Cotton Trade

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In the same year India imported 580,000 bales of cotton from abroad, the composition according to the varieties being : American 98,288, Egyptian 129,014, and sundries 352,862 bales.

The figures below regarding the world consumption of different cottons give us a comparative idea of our position.

### *World consumption of different cottons in 1938-39*

Thousands of bales

<i>American</i>	<i>Indian</i>	<i>Egyptian</i>	<i>Sundries</i>
11,249	6,138	1,242	10,451

The figures, however, do not give us an adequate idea of the international trade in raw cotton, as they include the consumption by the various countries of their own cotton.

In the quinquennium (1934-38) before World War II, the total world exports of raw cotton amounted to 13.8 million bales, the leading exporting countries being the U.S.A. (5.7), India (2.8), Egypt (1.7), and Brazil (.9). The chief importing countries were the U.K. (2.9), Japan (3.6), France (1.2), and Germany (1.2).

Wars have always played a big part in the shifting fortunes of raw cotton, and World War II has been no exception. The food supply of India was found tragically inadequate and subsequent years have not improved the situation. The "Grow More Food" campaign acquired a compelling urgency. This meant "Grow Less Cotton." The Government of Bombay enacted the Growth of Food Crops Act, which drastically restricted the cultivation of non-food crops. A control was instituted over prices of cotton, one of the objects being to weaken the incentive to grow cotton. The net result of propaganda and legislation was a reduction in the acreage under cotton from 23.5 million acres in 1938-39 to 14.4 million in 1945-46, the production falling from 5 million to 3.6 million bales. We would be missing the significance of this change if we failed to note that

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though the overall reduction in terms of production was only 32 per cent., the drop in staples 7/8" and below was as large as 60 per cent.

There were, however, other disturbances in the statistical position of raw cotton. Before the war, India was exporting annually, on an average, more than 3 million bales. After Japan entered the War (December 1941), India's export of cotton dwindled to insignificance. Till the end of the hostilities we could hardly export more than 400,000 bales per year.

After the cessation of hostilities, efforts were made to explore the potentialities of exports. A Trade Mission consisting of officials and non-officials was sent to China for the purpose. The relevant portion of the Mission's conclusions and recommendations is given below :

“Though the Chinese have plans for self-sufficiency with regard to raw cotton and had, as a matter of fact, in 1936-37 almost reached this objective, except with regard to finer staples for their finer quality textiles, it is doubtful whether they can hope in the future to completely reach self-sufficiency in view of the demand for food crops to feed their growing population and the increase in textile production envisaged, which will involve the consumption of double the quantity of cotton consumed by them in the peak years before the war.

“Medium and short staple cotton from India will, therefore, continue to be required by reason of their availability, the fact that the Japanese-owned mills in China are specially suited to this type of cotton and their overall cheapness as compared with cotton of comparable staple elsewhere.”

The Mission strikes an optimistic note and remarks :

“We see no reason, therefore, for despondency with regard to our surplus cotton production; indeed, we are convinced, on the contrary, having regard to the conditions which we have witnessed for ourselves in the South East Asia territories and in China

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that King Cotton has come into his own again and that the stage is now set for a boom in the textile industry which is likely to last for some considerable length of time and that, given careful planning, agreement between the countries concerned, the interests of the industry as also the interests of cotton producers all over the world, can be so brought together as to enable all parties to benefit in the era of peace and prosperity which now undoubtedly lies ahead.”<sup>16</sup>

During the War, in spite of several difficulties, imports of raw cotton into India averaged 500,000 bales, but their composition was radically altered. Shipments from the U. S. A. which before the War were anything between 50,000 and 100,000 bales, dwindled to a few thousand, whilst imports from Egypt and East Africa rose steeply.

The cessation of exports during the War created an embarrassing surplus, particularly in the short-staple varieties, which the Indian mills consume but little. This happened in spite of the fact that overall consumption of Indian cotton by the local cotton industry increased from 3 million bales in 1939-40 to 4.2 million in 1943-44. The growing accumulation of stocks of Indian cotton is shown below :

*Stocks of Indian Raw Cotton held in India by the Mills and the Trade on 31st August*

Year	Bales of 400 lb. each						
	000 omitted						
1939	..	..	..	..	..	..	..
1940	..	..	..	..	..	..	..
1941	..	..	..	..	..	..	..
1942	..	..	..	..	..	..	..
1943	..	..	..	..	..	..	..
1944	..	..	..	..	..	..	..
1945	..	..	..	..	..	..	..

Such, in brief, is a hundred years' history of Indian cotton. It is a sign of changing times that, after all these years, the Government of India has changed the slogan of its agricultural policy from “Grow More Cotton” to “Grow More Food.”

## CHAPTER II

### *COTTON SAILS ABROAD*

THOUGH from times immemorial India had a flourishing trade in cotton textiles, trade in raw cotton was in negligible quantities. Raw cotton was grown in India more for domestic consumption than for export. With a prosperous indigenous cotton industry, that was obviously a most natural state of affairs. The foundation of a vigorous textile industry in Great Britain led to the strangulation of the industry in India. It revolutionized India's raw cotton economy by destroying the internal demand for cotton and giving rise to a keen, though rather spasmodic, demand from Great Britain. This shift from domestic to foreign demand brought to the fore an altogether new set of problems in marketing and transport. The newly invented spinning machinery in Great Britain, consuming cotton at a tremendous speed, required a more rapid process of ginning raw cotton than was prevalent at that time in India. Export to a foreign country some 7,000 miles away demanded a more elaborate packing as well as a quicker and a cheaper transport. We discuss this aspect of the foreign trade in a separate chapter.

Exports of cotton to England throughout the seventeenth century and right up to the last decade of the eighteenth, were negligible. The advices of the Court of Directors for the three years, 1688 to 1690, include 600 bales of cotton for export per annum. Their instructions were to send only as much cotton as was required for making up the tonnage of ships consigned to Surat. In 1698, the factors at Surat were directed to send no more cotton from Surat, as "it sold at about 8d. per lb., but cost above 11d. (prime cost 3½d., freight 7½d., and customs ½d. per lb.)."<sup>1</sup> The total quantity of Indian cotton imported into Great Britain in the first decade of the eighteenth century amounted to 215,606 lb., an average of some 18 shipping tons per year. In 1790, the Directors of the East India Company, at the instance of British textile manufacturers, imported 422,207 lb. "But the speculation did not answer."<sup>2</sup> By that time the great

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inventions of the Industrial Revolution in England were in full operation. The inventions in the spinning industry created an almost insatiable hunger for raw cotton. Imports of cotton into Great Britain increased from an average of 6.7 million lb. during the quinquennium of 1776-80 to 56 million lb. during 1800. The British solicitude for Indian cotton, referred to in the previous chapter, was born out of this situation. To add to the difficulties of British manufacturers, while the industry was at its peak, Britain's relations with America became strained, culminating in the American Non-Intercourse Act of 1809. Realising that England would now have to fall back on Indian cotton, the Directors of the East India Company imported 30 million lb. This cotton was, however, not found suitable to the requirements of the British manufacturers, and only £250,000 lb. was used by them, the rest being re-exported to the Continent. This sad experience acted as a damper on further imports of Indian cotton even during the American War. But after the peace a general revival took place, and by 1816, 90 million lb. of cotton was imported into England. During 1817-19 prices rose on account of excessive speculation, and in 1818, 86 million lb. of Indian cotton was exported to England. It is interesting to note that during this period Indian cotton was being exported from Calcutta to America where it was mixed with American cotton before being re-exported to Europe.<sup>3</sup>

The period 1820-25 was one of hazardous speculation, and the inevitable crisis followed. A few years later, probably because of more settled times, Indian exports began to increase. But by 1830, prices of raw cotton having fallen below 6d. per lb., exports to England decreased from 80,422 bales in 1829 to 35,212 bales in 1830. The trade in cotton fluctuated with changing prices, and in 1836, with the average price of upland cotton at 10½d., exports to England reached a new high level of 219,157 bales. In 1839, though the prices were low, the Opium War with China diverted the cotton trade to England, augmenting the exports to nearly 275,000 bales.

The 'forties also were years of wide fluctuation. There was a heavy fall in prices in the initial years, business being done at

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prices as low as 2½d., which was less than what it cost the exporters in India. Imports into England fell to 94,643 bales in 1846, but with the rise in prices in subsequent years they again came up to 220,000 bales in 1847.<sup>4</sup>

All these years, Indian cotton was yielding ground to the American, as the tablegraph at the end clearly shows.

The exporters in India, who were as yet mainly Englishmen, were perturbed by this decline. They calculated that a decrease of a little more than 100,000 bales entailed a loss of Rs. 5.4 million to the various interests in the port of Bombay, connected with, or dependent upon, the cotton trade.<sup>5</sup> In September 1846, led by Messrs. Remington and Company, they requested the Government of Bombay to appoint a Committee "for the particular purpose of investigating and reporting upon the cause of the falling off in India's cotton trade." The Government appointed a Committee which submitted its report in 1847. The report constitutes a valuable document on the state of cotton trade of the time.

Let us first look at the statistical picture :

#### *Exports of Cotton between 1833-34 and 1845-46*

Port	Annual Average		
	Quantity in cwt.	Value in Rs.	
Bombay (1834 to 1846) .. ..	10,47,351	1,64,04,302	
Calcutta (1833 to 1846) .. ..	1,74,175	23,39,997	
Madras (1833 to 1846) .. ..	1,17,626	17,54,743	
Tuticorin .. .. ..	28,994	3,89,684	
All India .. .. ..	<u>13,68,146</u>	<u>2,08,88,726</u>	

Two deductions may be drawn from the above table:

(1) Judged by the quantum of foreign trade a hundred years ago, trade in cotton amounting to an annual average of Rs. 2 crores, probably made a substantial contribution to India's exports.

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China. When they were unable to utilise the whole space so reserved, it was auctioned by open competition. Usually the commanders and officers of the ships agreed to pay a rate of freight equal to that of the highest bidder, and preference was given to them by the Company.

Before passing on to the hectic days of the American Civil War and the cotton famine in England, we may briefly sum up the history of the raw cotton trade for nearly a hundred years since the great inventions of the Industrial Revolution. During this century by far the most important consumer of our raw cotton was Great Britain.

The table below shows the striking increase in her consumption of cotton since the year 1764.

*Quantity of Cotton consumed in Great Britain<sup>8</sup>*

Year						Bales (400 lb.)
1764	..	..	..	..	..	9,500
1785	..	..	..	..	..	45,000
1800	..	..	..	..	..	130,000
1820	..	..	..	..	..	362,000
1840	..	..	..	..	..	1,160,000
1860 (pre-cotton famine)	..	..	..	..	..	2,697,000
1868	..	..	..	..	..	2,490,000

The cotton-producing countries of the world commenced a race to satisfy this cotton hunger. India started with a substantial lead, which, however, she could not keep up. In 1793, the invention of the ginning machine by Ely Whitney revolutionised the marketing of raw cotton in America. India straggled behind, in spite of the heroic efforts of Manchester and the East India Company to push up the cultivation and export of Indian cotton. The table below, while giving the sources of Britain's cotton supply, tells the story of India's deteriorating position.

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*Sources of British Cotton Imports*  
Thousands of bales (400 lb.)

Year	United States	Brazil	Mediterranean	East Indies	West Indies and others	Total
1820 ..	260	61	6	34	23.5	384
1840 ..	1,176	43	22	211	13.6	1,465
1860 ..	1,956	59	84	451	23.6	2,573

Percentages might still better bring out the changing importance of the U. S. A. and India.

*Percentage share of U. S. A. and India  
in Britain's Imports*

Years		U.S.A.	British East Indies
1815-19	..	46	26
1820-24	..	68	9
1825-29	..	70	10
1830-34	..	79	9
1835-39	..	79	12
1840-44	..	81	14
1845-49	..	84	11
1850-54	..	78	16
1855-59	..	76	18

Then came the American Civil War, completely cutting off the supply of American cotton to Great Britain. The British cotton industry, from which, by then, a very large number of people were earning their livelihood, was faced with complete paralysis. From the pre-war level of 4 to 5 million acres, cotton cultivation in the United States fell to 500,000 in 1864-65. Prices of cotton in Great Britain shot up. Surat cotton which had been selling in Liverpool at 3d. to 5d. per lb. fetched as much as 20d. to 24d. A veritable gold rush ensued. Cotton farming was undertaken in practically every country which could grow cotton. In India, we are told, "even

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old mattresses were put into requisition to get the cotton, new beds being made of coir fibre."<sup>9</sup> India's exports to Great Britain increased from about 400,000 bales in 1860 to more than 1.6 million in 1866. The table below gives comparative figures of American and Indian exports to Great Britain during the Civil War and a few years immediately following:

### *British Imports of Raw Cotton*

Thousands of bales

Year		From America	% of Total	From India	% of Total
1860	..	2,838	82.4	422	12.25
1861	..	2,026	69.1	740	25.23
1862	..	80	7.0	805	71.00
1863	..	145	9.4	1,043	67.86
1864	..	217	10.4	1,349	64.86
1865	..	488	21.85	1,056	47.00
1866	..	1,282	37.93	1,619	47.92
1867	..	1,361	42.44	1,350	42.09
1868	..	1,350	41.08	1,370	41.69

Bombay acquired a large fortune during the cotton famine in England. The value of cotton exports from Bombay during those years is given below :

### *Value of Cotton Exports from Bombay to England*

Year			£
1861-62	..	..	9,262,817
1862-63	..	..	14,834,640
1863-64	..	..	27,912,117
1864-65	..	..	30,370,482
1865-66	..	..	25,534,179
		Total	107,914,235
		Yearly average	£21,582,847

Maclean computes "the clear addition to the wealth of Bombay" at 70 to 75 million sterling. Though, with the end of the American

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Civil War, there was a severe crash, it was the wealth of the war-period which laid the foundation of India's cotton textile industry.

By 1868, normal trading conditions were restored.

#### *Cotton Production and Trade in 1868*

Thousands of bales (400 lb.)

Country	Crop	Home consumption	Exports to			
			Great Britain	Continent through Great Britain	Continent direct	China
America . . .	2,900	1,080	1,153	197	470	135
India . . .	2,300	624	821	550	170	..
Egypt . . .	310	..	223.5	12	74	..
Brazil . . .	272	..	212	38	22	..
Other countries . . .	317	..	80.5	8	229	..
Total . . .	6,099	1,704	2,490	805	965	135

Thus during 1868, the Continent took 46.73 per cent. of the Indian cotton sent to Europe, Great Britain retaining the rest.

By this time, direct trade between India and the Continent had been developing. Harry Rivett-Carnak, who was Cotton Commissioner for the Central Provinces and Berar, gives very interesting information on the subject in his report of 1868-69 :

“ I have been very much struck with the direct trade in cotton between India and the Continent. Last year a French house in Bombay headed the list of shippers from that port. This year the number of foreign mercantile houses has largely increased. A French house has purchased land, and set up full presses in the Berars, and there appears to be a determination in France to deal direct

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with India for her cotton. That the foreign trade is considered important by even the English merchants in Bombay, I have reason to know, from the circumstance of some of them shipping largely to the Continent ; and it has even been found necessary in some cases to engage foreign assistants to carry on the correspondence thus entailed. There is now a branch of the French Bank at Bombay, which much facilitates all banking transactions with France and other countries in Europe. The French are soon to have a line of steamers to carry the full pressed bales direct to the ports of the Mediterranean through the Suez Canal, and it is, I believe, now proposed to establish a branch of one of the Austrian banks at Bombay, and to run a fortnightly service of the Austrian Lloyd's steamers from Trieste through the Suez Canal to Bombay."

The following passage regarding direct trade with Russia is also of great interest :

"One more small fact, and enough will, I hope, have been said to reassure those who fear that the encouragement of the trade may hereafter react unfairly on the ryot. This year, 1869, of the Dharwar saw-ginned cotton, which was shipped from the new port of Carwar, 1,800 bales were sent direct to Kronstadt in a brig for the use of the Russian manufacturers, and it is not improbable that next year may see some Russian merchant ships in the Bombay harbour. His Excellency M. Vlangaly, the Russian Ambassador in China, who recently passed through India on his return to St. Petersburg, evinced a keen interest in all matters connected with Indian cotton, which, in the present state of manufacture in Russia, was, he considered, of great interest to that country."

Up to the American Civil War, Great Britain and China were the two most important buyers of Indian cotton. Thereafter, the trade with China lost much of its importance. France took China's place and maintained it till 1880-81, when she yielded it to Italy. Between 1885-86 and 1890-91, Europe was the biggest consumer of Indian cotton, Austria, Belgium and Italy leading the list. The year 1890-91 was the last year in which Great Britain could retain

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the first place in the consumption of Indian cotton. After that her off-take fell precipitously, and with a brief exception during the War (1914-18) she held sixth or seventh place in importance. Between 1891-92 and 1894-95, imports by Germany took pride of place, with Italy, Austria and Belgium following in order of importance. In 1897, Japan shot up to the top of the list in the consumption of Indian cotton, a position which she retained uninterruptedly, with the exception of the year 1901, for almost half a century.

Since the beginning of the present century, Japan went on improving her position as the chief foreign customer of Indian cotton.

#### *Exports to Japan*

Thousands of bales

Year	Total production	Total exports	Exports to Japan
1905-06	3,426	2,113	637
1910-11	3,963	2,482	815
1913-14	5,065	3,036	1,376

During the War (1914-18) when the Continental market, with the exception of Italy, was entirely closed to India, Japan increased her consumption of Indian cotton, her imports going up to 1.6 million bales in 1916-17. After the cessation of hostilities, exports of Indian cotton to Japan fell off for some years, but with the revival of trade, Japan's share in India's cotton exports became stabilised between 40 and 50 per cent. of the total.

In 1933, there occurred a serious set-back in our commercial relations with Japan, particularly in the cotton trade. Consequent upon a drastic depreciation of the yen in 1932, Japanese textiles began to flood the Indian market, causing serious embarrassment to the Indian textile industry. Since 1930, non-British textiles had been paying 5 per cent. additional protective duty in India. In August 1932, the duty on non-British piecegoods was raised to 50 per cent. Even this did not check Japanese imports. In June 1933, the Government of India gave notice of termination of the Indo-Japanese

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Convention of 1909, which had entitled Japan to most-favoured-nation treatment. The duty on non-British imports was simultaneously raised to 75 per cent. These measures caused severe resentment in Japan and the Japan Cotton Spinners' Association declared a boycott of Indian cotton.

The 1933 cotton season felt the impact of the boycott, the quotation for Broach contract coming down from Rs. 220 on 2nd June to Rs. 174 in November 1933. Negotiations were initiated for a trade pact, which resulted in the Indo-Japanese Trade Agreement of 1934. Fiscal matters apart, the Agreement provided for an export of one million bales of raw cotton from India to Japan, against imports of 325 million yards of Japanese piecegoods. It further devised a sliding scale by which increases or decreases in the Japanese off-take of Indian cotton were to be compensated for by corresponding changes in the quota of Japan's exports of piecegoods. The Agreement paved the way for a smooth flow of cotton trade during subsequent years. Japan's purchases of Indian cotton reached a record level of 2.4 million bales in the 1936-37 season. In 1937, when the original Agreement terminated, a fresh protocol was signed, the only modification being a reduction in the basic quota of Japanese imports because of the separation of Burma. The protocol was to remain in force up to March 1940. Negotiations for a new agreement were begun in October 1939, and the Japanese Government announced their intention to increase their exports of cotton piecegoods to India to 400 million yards. But they gave an assurance that in the event of the trade negotiations being successful, the allotment of Japanese exports would be readjusted with retrospective effect in accordance with the provisions of the new agreement.

By this time World War II had broken out and several difficulties were experienced in regard to cotton exports to Japan, such as insufficient freight space and inadequate credits in favour of Japanese shippers—credits opened both for shipped and unshipped contracts being invariably short of the actual invoice value of the cotton.

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Political relations also with Japan were deteriorating, and on 26th July 1941, the Government of India issued orders for freezing the accounts of all persons or firms domiciled in the Empire of Japan and Manchuria. This was the beginning of the end of all trade relations with Japan till the cessation of hostilities in April 1945.

For more than a century from the hectic days of government encouragement and assistance to the export of raw cotton from India to Great Britain, our cotton trade with that country remained dull and featureless, averaging about 200,000 bales annually. The Ottawa Agreement left raw cotton out of its purview. By Article 8 of that Agreement, however, His Majesty's Government promised "to co-operate in any practical scheme that may be agreed between the interests concerned, for promoting, whether by research, propaganda, or improved marketing, the greater use of Indian cotton in the United Kingdom." A special committee was set up in Lancashire for the fulfilment of this objective. A Trade Pact was also signed in 1935 between Sir H. P. Mody, then Chairman of the Bombay Millowners' Association, and Sir William Clare-Lees, Leader of the British Textile Mission to India, and one of its clauses promised maximum effort on the part of the U. K. to consume as much of Indian cotton as possible.

The Lancashire Indian Cotton Committee did some useful work. The consumption of Indian cotton by the U. K. steadily increased, and though it is difficult to state to what extent the increase was the result of the Committee's activities, the fact remains that by 1936-37 United Kingdom's imports of Indian cotton rose to nearly 600,000 bales.

In March 1936, the Indian Legislature passed a resolution for termination of the Ottawa Agreement and made a recommendation to the Government to explore possibilities of bilateral trade treaties with the U. K. and other countries. Government appointed a committee of unofficial advisers to advise them on the question. After protracted negotiations, the Indo-British Trade Agreement

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was signed in 1939. The Agreement completely ignored the advice and recommendations of the unofficial advisers. In their report, dated 5th September 1938, the majority of the advisers stated that they had unanimously recommended that Lancashire should guarantee a definite purchase of Indian cotton rising from 750,000 bales to a million bales by graduated steps. Later, they agreed to lower the minimum to 650,000 bales, with a guarantee to purchase specific quantities of short-staple cotton.

Lancashire was, on an average, already consuming 250,000 bales of Indian cotton before the Ottawa Agreement and had actually consumed 550,000 and 650,000 bales in the 1935-36 and 1936-37 seasons respectively. The Indian Central Cotton Committee, after analysing the United Kingdom's manufacture of yarn, reported that it could without inconvenience, take about 900,000 bales of Indian cotton every year. The advisers felt that, though these estimates might have to be revised in the light of more detailed inquiries, they gave, on the whole, a fair picture of the situation.

Another fact may be noted here. The representatives of the cotton growers quite strongly held the view that the off-take of Indian cotton by Lancashire could not confer substantial benefit unless it were accompanied by an assurance regarding the staple length of the cotton so purchased. The demand of the growers was that the short-staple cotton taken by Lancashire should be 65 per cent. of their total off-take and that 35 per cent. of the off-take should be of the shortest staple. The Agreement, however, contained no such provision.

Article 10 of the Agreement provided for certain basic exports of raw cotton from India, and included a clause penalising deficiencies from, and rewarding excess over, the basic quota, by means of appropriate adjustment either in the quota of imports of piecegoods from Great Britain or in the import duties levied on them. The basic quotas were :—

		Bales
For the cotton year ending 31st December 1939	..	500,000
For the cotton year ending 31st December 1940	..	550,000
For every subsequent cotton year .. .. ..	..	600,000

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The Agreement was incorporated in the provisions of the Indian Tariff (Third Amendment) Act, 1939. The Bill for this Act was rejected by an overwhelming majority in the Central Legislative Assembly, but was certified by the Governor-General. The U. K.'s consumption did not, however, come up to the expectations. Very soon the war intervened: figures of consumption in the U. K. during the war period are not available.

Raw cotton from India is no longer a commodity so dearly sought by the United Kingdom as it was after Hargreaves and Arkwright had speeded up the British spindles or during the cotton famine of the American Civil War. Time was when the Manchester manufacturers coaxed, cajoled and coerced the Indian cotton cultivators and merchants to give them cotton. During the last 20 years however, King Cotton has found himself more than once moving about with a begging bowl.

## CHAPTER III

### ***EARLY TRANSPORT AND LEGISLATION***

**A**NNUALLY 2 to 3 million bales of cotton arrive in Bombay, by rail, road or sea: cotton from as far north as the North-West Frontier Province and as far south as Tirupur and Tuticorin in the Province of Madras. In this emporium of cotton, you can buy and sell, practically every day of the year, the cotton of your choice, anything from the snow-white "Surat 1027" with its silky feel or the best Punjab American, to coarse Bengal or Mathia from Kathiawar. In the range of choice it offers, the cotton market of Bombay is perhaps second to none in the world. Its stock of cotton would not normally go down below 3/4 million bales. Merchants from all over India, and quite a few from abroad, have their agents permanently stationed in Bombay.

This annual journey of 2 to 3 million bales, in some cases extending to 1,500 miles, is full of economic and human interest. In economic terminology, by the time the journey is completed the *kapas* (seed cotton) from the cotton fields will have acquired a rich layer of "place" and "form" utilities. The cart-load of loose *kapas* would be converted into full-pressed bales covered up with hessian and bound by iron hoops. From the farm to the exchange is a journey in which raw cotton goes through many physical processes like ginning, pressing and transporting and mercantile processes like buying, selling, hedging, marketing and financing.

But time was when there were no exchanges, no ginning and pressing machines, no railway, no motor truck. Yet there was cotton, and there were cotton merchants, the *charkha* and the loom. The journey was long and tedious—so, at any rate, we feel, conscious of the speed and comfort of our times. The route of the journey was also different and it changed with the changing times. The processing was simpler and so was the trade technique.

## EARLY TRANSPORT AND LEGISLATION

When cotton from Gujarat could not go to Bengal because of political turmoil, the latter obtained its cotton from Berar. The outlet afforded by the manufactures of Bengal to the cotton of Berar was the most favourable one that existed in 1813, and for several years following. The Berar cotton had first to go to the Gangetic delta, a distance of over 500 miles, and thence to sail down the Ganges to Calcutta, another 500 miles. It was thus not unusual for King Cotton to travel a thousand miles. But with the growth of British textile industry, European demand for Bengal's cotton fabrics ceased and Indian cotton had to seek fresh outlets. It was invited to Bombay for a sea journey. But transport to Bombay had its problems. Gujarat had many excellent harbours, but they were neglected and lacked conveniences. The sea carriage to Bombay was so cheap that even the protagonist of rail transport admitted that no other form of transport could be cheaper.\*

None of the Gujarat cottons, with the exception of a little of that grown in the Ahmedabad Collectorate, had probably to be carried a greater distance than twenty, or at the most twenty-five miles to their shipping ports, whence they were conveyed by boat to Bombay at a trifling cost. Yet, these twenty-five or thirty miles of track—for roads there were none—were extremely bad and entailed much labour and delay.

Cotton from Berar and Khandesh during the early years of the nineteenth century, had to pass through territories, then the field of hostilities between the Peshwa and the British, as well as amongst the Mahrattas themselves. "The . . . customary disorders of the country had been aggravated by the looseness of the corrupt, needy and tottering Government; the transit duties afforded every petty local officer ample pretext and opportunity for extortion; the Ghats were yet uncrossed by more made roads than the single one at the Malsej, made, or more probably restored, by Nana Fur-nevees, and even that was reached by difficult routes from the north

\* Sea carriage from Gujarat to Bombay is indeed cheap, being about three rupees for seven cwt. equal to 0.005*d.* per lb. or, on the distance, 0.789*d.* per ton per mile; from this rate there is evidently nothing material to be saved by reduction.—Chapman: *Cotton and Commerce of India* (1851).

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and east, and led to a bad route through the Concan ; the Concan itself, of a climate inimical to the men and cattle of the interior, and an outlying and inferior province of the Mogul, and afterwards of the Mahratta Empires, was covered with wild forests, almost destitute of water in its northern part, through which the more direct line between Berar and Bombay would have led."<sup>1</sup>

In an economy which was more or less regionally self-sufficient, transport was naturally undeveloped. Major-General Briggs, in his evidence before the Select Committee of the House of Commons, illustrating the condition of roads in India by referring to the circumstances arising out of the absence of a monsoon road between Khandesh and Poona in 1823, said :

" At that time grain in Khandesh had fallen to 8s. to 6s. a quarter. At Aurangabad it was 34s. a quarter, and at Poona as high as from 64s. to 70s. a quarter ; but, in consequence of the monsoon, and the want of roads, the grain from Khandesh did not reach Poona .... There was a superabundance in Khandesh where grain was ruinously low, and great remissions were obliged to be made in consequence ; while at Poona, where they had a bad season, grain was very dear."<sup>2</sup>

According to Cassels, a large part of each crop of cotton never reached Bombay until after the monsoon. During the long period of its detention in the interior it was exposed to dust and rain. A vivid description of the journey in 1848 is given by a witness in his evidence before a Committee of the House of Commons.

" Cotton is exposed to every species of depreciation during its transit to Bombay. Moving along at the rate of one or two miles an hour in rude carts, or on the back of bullocks, over bad roads, the dew and the dust do their worst to it. The bullocks are loaded and unloaded twice a day, generally in the neighbourhood of watering places, and their packs are rolled in the mud. Each bullock

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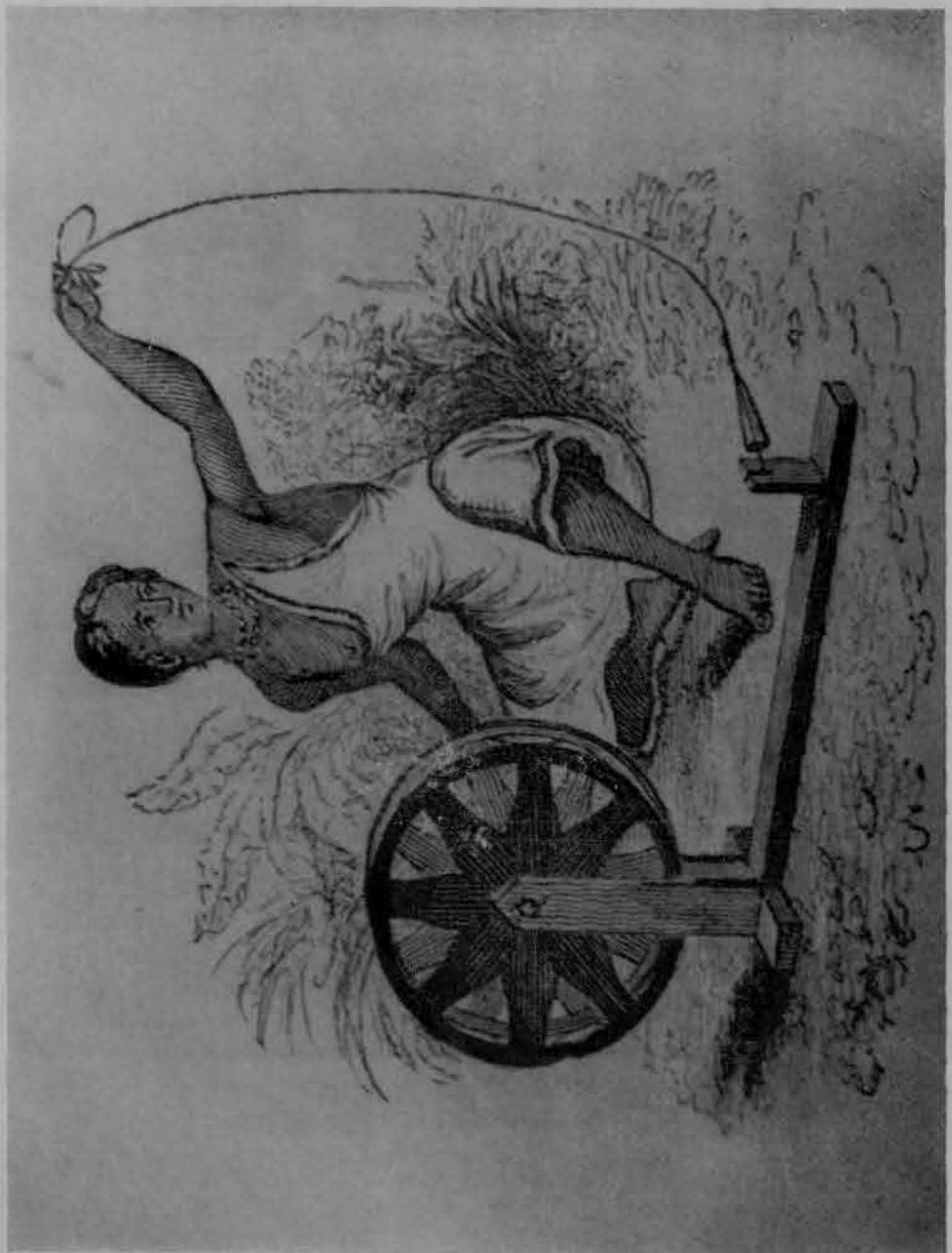


*Ginning of Cotton—Old-type Foot-Roller*

*A: Smooth Stone; B: Stool; C: Iron Rod; DD: Wooden Soles; E: Seed; F: Cotton*

1

*Old-type Charkha*



#### EARLY TRANSPORT AND LEGISLATION

consoles himself during the march by keeping his nose in his leader's pack, and steadily eating the cotton. The loss in weight, which has not been compensated by the accumulated dust of the journey, is too often supplied in water at its close."<sup>3</sup>

The dominant form of transport was thus the bullock. Wheeled traffic was not much in vogue until the middle of the nineteenth century. In 1843, one Mr. Fenwick "failed to deliver 5,000 bullock loads of cotton at Bombay through failure of carriage." Such leisurely ways could hardly suit the newly invented, fast-moving spinning machinery of British manufacturers. Mr. Chapman, the Founder-Manager of the Great Indian Peninsula Railway Company, writing in 1851, notes that "as 18,000 tons of cotton, the quantity now brought down (to Bombay), require 180,000 bullocks to carry them; and as this quantity is about one-tenth of the annual traffic both ways, between the coast near Bombay and the interior, it follows that 1,800,000 bullocks per annum must pass by the few routes which the practicable passes of the Ghauts permit to be used."<sup>4</sup>

So much about the routes, the form of transport, and the difficulties encountered by cotton in its journey to Bombay.

These difficulties, however, did not deter our enterprising merchants from engaging in this trade. In 1824-25, an attempt was made by merchants in Bombay to establish traffic in cotton between Berar and Bombay. "In this enterprise it appears Sir Jamsetjee Jeejibhoy took the lead and was quickly followed by Karuna Shankar, Gopaljee, Runmal Sunker, and Vicajee and Pestonjee Merjee."

Regarding marketing and the middlemen in the cotton trade, one Mr. Vaupell gives the following account:

"The agents employed between the growers and exporters are generally Banians, who, to the eastward of the Gulf of Cambay, are termed Vakariahs. These people are a kind of middlemen or

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forestallers, who make the necessary advances to the ryots to enable them to cultivate their fields, and become responsible to the Collector for the Government share of the produce, on condition of having the refusal of all the Kappas they may cultivate, either at the market rate, or at a rate previously agreed upon.”<sup>5</sup>

The firm of Ritchie, Steuart & Co. gives the following description of conditions in Khandesh in 1850:

“Intrinsically the cotton is good, but the ryots generally, it appears, are so deeply indebted to the shroffs, that they have little interest in the crops, and the usurious profits which the latter are said to make, added to the apathy which characterises natives in such matters, render them indifferent to the quality of the produce. The cotton crop is, therefore, the least valuable which the people cultivate, and, being allowed to remain in the fields until other crops are secured, it is injured by the dews, and by the opening and crumbling of the parched pods. If parties who had advanced upon cotton crops were to interest themselves in inducing the ryots to give attention to the earlier picking of the cotton, they could afford to give so much higher prices as would place the cultivation of this produce on a par, in point of remuneration, with that of any other crops.”<sup>6</sup>

But Mr. Davies, the Collector of Broach, showed a deeper understanding of the marketing process in Gujarat in the full account which he gave in his letter (dated 28th January 1847) addressed to the Committee appointed in 1846 by the Government of Bombay to inquire into the decline of the cotton trade. He said: “The concluding part of your letter touches upon the enhancement which the cotton undergoes in price during its progress through the hands of the local purchasers and brokers. These, you are aware, are of two distinct classes—the Wakharias (i.e., those who purchase the ‘Kuppas’ from the ryot), and the brokers, who execute commissions from Bombay and other great marts. The Wakharia has the cotton ginned and cleaned by Bheels, and by other labourers, preparatory to taking it into the market, and is generally reimbursed for this expense by the re-sale of the cotton seed. His prospects

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are afterwards very uncertain; for, as his profit or loss entirely depends upon the state of a distant market (Bombay), which may vary considerably after his time-bargains with the ryots and brokers have been completed, it often happens that those of his class become gainers or losers to a greater proportionate degree, upon the extent of their dealings, than the commission agents or brokers of the principal export towns, who derive their moderate percentage without corresponding risk of loss. The Wakharias are represented to have been considerable losers during the past three or four years, as well as others (natives of the districts), who, like the Wakharias, were in the habit of purchasing cotton on speculation. I am given to understand, upon what I consider to be the best local authority, that a profit of two rupees per 'Bhar' or five rupees per candy of cotton, is regarded as sufficiently remunerative.

“ It appears to me scarcely fair to heap so much opprobrium upon the class of ‘Wakharias’ as has of late been the fashion. In hard times they are, undoubtedly, put to shifts which are as indefensible in a moral, as detrimental to their interests in a commercial, point of view, but it is not fair to regard them as a class of greedy middlemen. It should be borne in mind that they befriend the ryot, and, in a manner, become security for the public revenue by their individually humble, though jointly extensive, transactions; and that by their frugal management and moderate profit, they occupy the places of the more extensive merchants, whom the temptation of employing their capital to better purpose has drawn from the country.”<sup>7</sup>

Mr. Fenwick describes another aspect of marketing, in a letter, dated 16th December 1836, written to the Agricultural Horticultural Society of Bombay: “ The exporters of cotton to the coast are chiefly opulent individuals and native firms of Bombay. They have gomashtas who have located themselves at Khamgaum, from whence they send out subordinates to the several pergunnahs, to make advances to patells and substantial ryots of villages, about two months previous to the gathering, at 2 per cent. per month.

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Such security is taken as can be got, and they deem good, usually of mahajuns, or able and wealthy patells themselves. They likewise purchase cotton from the mahajuns who are settled in the Kusbas, and almost every respectable village in the country, these mahajuns having made advances to the ryots in the similar way.

“When the cotton begins to come in, the principal talookdars and mahajuns of large towns and peints meet and fix what is called a ‘Sahookears’ price,’ and receive the wool from the producers (cleared from the seed) at the Kusba or peint, or, according to agreement, at the village itself. They take a discount of one rupee per nug (about 0.1d. per lb.), on account of the advances made by them.”<sup>8</sup>

The methods of storage were in keeping with those of the rest of the marketing. The kapas was generally stored in pits dug in the ground and plastered inside with cowdung. Cassels refers to the old revenue system in which “cotton, when gathered, was immediately transported to the village kulle, or pound—in fact a large enclosure, surrounded by a thorn or prickly-pear hedge, in which the cotton was detained till the assessment was paid. There it was either piled in heaps, or laid in pits dug for the purpose, with their sides plastered with cowdung ; a few clods were placed over it, which, although sufficient to prevent its being blown away, were not sufficient to prevent its being wet by the dews or mixed with the dust. It was with great difficulty that Government, on the abolition of Kulee system, could induce the native owners to adopt a better mode of storing.”<sup>9</sup>

As for financing, “The great money lender made advances to the little money lender, and he in turn to the cultivator. The cultivator, bound by inextricable indebtedness to his immediate creditor, cared little for his crop, beyond its satisfying the immediate claim on him. The little money lender took the crops of, perhaps, 100 cultivators, and the great money lender collected crops of, perhaps, 100 little ones ; all were mixed together, and no one man felt for himself much of the consequences of faulty cultivation, of negligence, or of fraud.”<sup>10</sup>

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Ginning of cotton was done by the indigenous *charkha*. In a letter dated 30th May 1812, the Governor in Council at Bombay wrote to the Court of Directors as follows:

“ We are informed by Forbes that the cotton-wool is separated from the seed by a hand-machine, called *chirkhaw*, not unlike a gin. This process, he believes, is not of much injury to the staple. Two men are employed in working a *chirkhaw*, and seldom clean more than half or three-quarters of a maund per day.

“ The succeeding process of bowing, switching, or beating the cotton to free it from leaves, dirt, etc., are all disapproved of, as being very destructive to the fibre of the staple, and if the cotton is not previously picked and cleaned (at an expense of Rs. 20 or Rs. 30 per candy), the commodity is very little improved. Bowing alone costs Rs. 10, and switching or beating Rs. 4 per candy, and the great expense of hand-picking the cotton renders the general use of that system impossible.”<sup>11</sup>

In a further letter, dated 18th December 1816, the same authority describes the system as follows :

“ The kupas to be cleaned from the seed is delivered to a set of men called bhukaries (Wakharias), who have been at a considerable expense in erecting bhukars (or warehouses) for the receipt of it, and after being placed in their hands they are responsible for the re-delivery of clean cotton agreeable to an annual fixed rate. A vast number of indigent men and women, who flock from various parts of the country every year to the district of Broach, bringing with them a *churka* or cleaning-wheel, are taken into the service of the bhukaries, who pay them a trifling amount, regulated by the weight of the cotton seed which each turns out daily ; and, from the general character of the people, there is reason to fear that an attempt on the part of Government to introduce any other machinery for cleaning kupas than that which is now in use, would be (as was the case within the Government of Fort St. George) altogether abortive, while it cannot be expected to be freed from the seed better or cheaper than by the present process.”<sup>12</sup>

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Cotton came to sea-ports in loose packages and was screwed in Bombay. Between 1834 and 1846, 3,978,620 bales were pressed in Bombay.\*

This method was obviously uneconomic. Calculation was made showing the saving in freight that could result by pressing the bales up-country.

The difference in the cost of sending pressed and unpressed cotton by rail from Budnaira to Bombay was calculated as follows:<sup>13</sup>

								Cost
								Rs. a. p.
400 lbs. or 5 mds. of unpressed cotton in docras at fifth rate, viz., Rs. 4-2-9 per md.								20 13 9
400 lbs. or 5 mds. of pressed cotton at third rate, viz., Rs. 2-3-1 per md.								10 15 5
Difference in favour of pressing	..	..	..	..	..	..		9 14 4
Hire of press per bale	..	..	..	..	..	..		1 0 0
Cooly hire and ropes	..	..	..	..	..	..		1 8 0
Total saved on every bale of 400 lbs.	..	..	..	..	..	..		7 6 4

Bombay, 1st November, 1866

MAJOR R. HASSARD,  
21st N. I. or Marine Battalion

Apart from saving in freight there were other advantages of up-country pressing. A letter in the *Times of India* dated 22nd August 1862, described them at length :

“Another important measure is the establishment of steam screws and steam saw-gins at all the large cotton shipping ports. This is a mercantile speculation in which Government cannot interfere, but it would be found the most profitable one to any one who would undertake it.... Great number of Bhils from the

\*General statement of the quantity of cotton pressed and screwed in the different packing establishments of Bombay, for the years 1834-1846 (inclusive) :—

		Bales	Weight in cwt.
The Honourable Company from 1st January 1834 to 15th September 1835	..	33,842	1,21,532
Apollo Cotton Press Company	..	26,11,940	82,74,163
M/s. Forbes & Co., to 1845	..	5,58,727	20,16,900
D. and M. Pestonjee	..	3,55,089	12,87,197
Khimchund Motichund	..	1,73,292	6,28,194
F. and A. Hormusjee, from 1st January 1836	..	45,768	1,65,909
Colaba Press Company	..	1,99,959	6,98,884
		39,78,620	131,92,779

—Return, *East India Cotton*, Part III, Page 23

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Rajpipla Hills and Kats from Kathiawar resort to the cotton districts during the season, and are employed in some of the wukhars night and day in preparing the cotton for shipment before the high south-west winds begin to blow. A few steam saw-gins like those at Broach would do all the work of this people and get the cotton to market at least a month sooner than at present. If the cotton were pressed by steam power, not only would the expense of the first pressing by hand power be saved, but ships from Europe might come well into the Gulf of Cambay to receive their cargoes, and thus save a lot of time that is lost in the voyage in native boats to Bombay, the expense of breaking bulk, landing, re-screwing, re-weighing, and re-shipping in Bombay.”<sup>14</sup>

Strenuous efforts were made by British interests to adapt the marketing of cotton to the needs of the export economy. Processing and transport received their particular attention. The following extract from a letter, dated 4th November 1829, from the Court of Directors to the Governor in Council at Bombay, shows the British solicitude for improvement :

“ We have likewise received six of the machines for cleaning cotton called Whitney’s saw-gin, two of which we shall transmit to your presidency with the cotton seeds. We have desired our agent to send us a description of the method of using the saw-gin in North America, and you shall be furnished with a copy as soon as it comes to hand.”<sup>15</sup>

*Churkas* were, in several districts, distributed gratuitously to the ryots; and several attempts were made, practically without any success, to improve that machine. An Egyptian instrument, which was procured as a specimen, proved no better than the *churka*. Dr. Lush reported unfavourably on the Whitney gin. “ Much time has been lost,” he remarked, “ by assuming that Whitney’s saw-gin ought to answer here because it does in America. Of this, there is now, I believe, little chance. We do require a machine to effect for our cotton what Whitney’s saw-gin had done for America, but

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this machine is yet to be invented." A grant of £ 100 was made by the Court of Directors, through the East India Association of Glasgow, in order to stimulate mechanics to produce a suitable machine, but the result entirely disappointed the expectations which were entertained.<sup>16</sup>

It is impossible in a volume like this to narrate a connected story of the series of improvements brought about in the ginning and pressing machinery. However, a few extracts from the *Times of India* and other sources of that period given below reveal the tenacity with which the British interests applied themselves to the task.

"Two effective machines have been sent to rooms of the Chamber for exhibition; one by Messrs. Nicol & Co., on the model of Dr. Forbes's cottage charkha, and the other, invention of Mr. Mason, of the Fort Press Company, entitled 'a double cotton charkha'. Both appear well suited to the purpose intended, and will be found very useful to those who may engage in the experimental cultivation of cotton."<sup>17</sup>

"All persons interested in machinery for separating cotton from the seed are invited to inspect the Patent Improved machinery for that purpose, by Platt Brothers & Co., to be seen at the office of the undersigned, who is prepared to receive orders for the same." (Advertisement in the *Times of India*, 23rd April, 1862.)

"New cotton gins on Perker's patented principle for extracting the seed from kuppas, will clear five times more than the native charkha without injuring the staple. Orders received, and a machine may be seen in operation daily (Sunday excepted) between 11 and 3, at 1, Church Lane, Fort, next to Revenue Seovell & Co." (*Times of India*, 2nd February, 1863.)

"New cotton gins on Perker's Indian patented principle. Orders received by the patentee or his agents, Messrs. Lawrence & Co., Merchants, Bombay." (*Times of India*, 7th February, 1863.)

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“ Specifications of an invention for improvement in hydraulic and other presses and apparatus used therein adapted to cotton packing and other fibrous substances has been filed, under the provisions of the Act XV of 1859 in the office of the Secretary to the Government of India, Calcutta, by William Riddle, of Gerard Street, in the Parish of Islington in the County of Middlesex.” (*Times of India*, 14th September, 1863.)

“ Mr. Forbes’s Lever Press (for half pressing cotton) to be worked by four men; simple in construction, and can be easily repaired by any village carpenter. On an average from 80 to 100 bales can be pressed per day. The actual cost of the machine has come to Rs. 365-13-4.” (*Times of India*, 7th August, 1865.)

Memorandum of Mr. W. Walton, Acting Superintendent of Dharwar Cotton Gin Factory, on Dr. Forbes’s new Lever Press:

Points: (i) Rapid transport of cotton to export ports in a cheap and simple way; (ii) simple in working, any bazaar labourer can work it; (iii) a boat can carry twice as much cotton pressed with foot press, in addition to carrying it in cleaner and more handy packages. Very useful, specially in the Punjab; (iv) the machine packs the bale so effectually that robbery cannot be done without being detected. (*Times of India*, 8th September, 1865.)

Efforts to improve transport facilities were no less persistent, though they involved undertaking by the State of ambitious projects. The first railway in India—the Bombay-Thana line—was opened in April 1853. Shortly afterwards, the Government of India sanctioned the construction of railways from Bombay to Poona and from Bombay to Ahmedabad. Commercial interests were dissatisfied with this decision. The Bombay Chamber of Commerce which represented their views, “particularly desired that the Khandesh and Berar cotton districts should be opened up by means of a line over Thal Ghat.” The Government sanctioned the construction of this line and the Chamber noted with satisfaction that this line “secured larger supplies for Lancashire during the cotton

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famine of the next decade." In 1860 the south-easterly line of the G.I.P. Railway was extended up to Sholapur with a hope "ere long to tap the fertile cotton and seeds area of the Hyderabad Deccan."<sup>18</sup>

As regards railway lines in Gujarat, the first portion of the B.B. & C.I. Railway to be built was the Surat-Baroda-Ahmedabad section. The Bombay Chamber of Commerce expressed the opinion that a line between Surat and Baroda or Ahmedabad would be comparatively of little utility until it was completed through to Bombay. This was done in 1864.

Commenting on the effect of railway connection on the movement of cotton, the Bombay Chamber's report for 1866-67 observes:

"During the season which closed in May last the improvement has not merely been continued but also greatly extended. Between the 1st of January and 30th April 1867, more than 1,500,000 mds. or nearly 60,000 tons of cotton was carried an average distance of 350 miles. The quantity moved on the railway during the same period in 1866 was 42,569 tons, showing an increase in 1867, of more than 16,000 tons. The prospects as regards the movement of cotton in the coming season seem to be still more satisfactory. Next season there will be 275 miles of double line out of a total of 600, whereas this season there was only 60 miles of double line out of 550."

Railways had won the day. Alternate forms of transport were neglected and discouraged. For example:

"The steamer pier opposite to the jail at Surat was commenced under the authority of a resolution of Government No. 2848 of the 14th August 1860, which sanctioned the work at an expense of Rs. 22,700 of which the Government was to contribute one-half from the Gujarat Port Fund, and the Surat Municipality the other half. An expense of Rs. 789-9-0 was incurred on the pier, when His Excellency the Governor on a visit to Surat decided against

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its further progress. The reasons for His Excellency's order are not on record, but the obvious inference is that the construction of a railway through Gujarat to Bombay rendered further prosecution of the pier, in his opinion, inadvisable.”<sup>19</sup>

In a letter, dated 12th May 1862, Captain Greig, Engineer for Railways in Gujarat, puts the case for railways in unambiguous terms:

“If Government were to sanction the cost of constructing bunders at, and road-feeders to, the Gujarat ports, they would be encouraging at great expense a serious opposition to the railway for no necessity that I can see and probably with much loss to themselves.... It is hoped that the railway will be found capable of conveying at a cheap rate by far the greater portion of the Gujarat cotton to the convenient ports, and I trust that no work will be sanctioned which would have the effect of diverting traffic from it. I would submit that, at all events, it would be well to test the capabilities of the railway before incurring a heavy expense for works which, if the railway succeeds, will be of little use.”<sup>20</sup>

In this connection it would be interesting to refer to a passage from the Report of the Indian Railway Committee, 1920-21, better known as the Acworth Committee.

“About 100 miles to the north of Bombay, Broach, a small but ancient port, is situated on the main line of the B. B. & C. I. Railway. In the year 1908 an enterprising Bombay firm started a steamer service between Broach and Bombay. The Railway found that a certain amount of traffic was being diverted. They therefore appealed to the Railway Board, pointing out that, as the great bulk of the profits of the Company went to the Government, the Government was interested in putting a stop to this diversion, and they suggested that, in order to enable them to impose on the through traffic for the short distance to or from Broach, rates sufficiently high to leave little or nothing for the steamer portion of the journey, the Railway Board should permit them to raise the classification of

## A HUNDRED YEARS OF INDIAN COTTON

certain competitive articles to the highest class. The Board assented. In one case at least, that of sugar, the article was raised from the first class to the fourth; in other words, the Company's power of charge was increased fourfold. The steamers withdrew from the unequal struggle, and the merchants of Broach not unnaturally protested. One sentence in the reply of the Railway Board deserves quotation:

“The contention . . . is altogether opposed to the universally accepted policy which recognises that the unfettered freedom enjoyed by sea transport agencies in the quotation of rates entitles railway administrations to greater freedom when competing with water transport than is legitimate when competing amongst themselves.”<sup>21</sup>

The Committee further observed that “the steamer service was taken off, “killed,” said the merchants of Broach, by the block rates. Thereupon they petitioned that these rates, having served their purpose, might be withdrawn. The Railway Company refused to assent on the ground that there was still water competition maintained by country craft—small sailing vessels manned by Indian crews. Finally, the Government of Bombay intervened, as representing a public opinion which was becoming vocal, and then the Railway Board submitted and announced to the Railway Company that the exceptional increases in classification could no longer be sanctioned and must be withdrawn. But the Broach block rates lasted from 1910 to 1919, and the memory of them is still green in the hearts of traders all over India.”<sup>21</sup>

In due course, as we know, railways monopolised the entire traffic in goods. For the first 40 years after their construction they made a loss of Rs. 580 million. Yet no alternative forms of transport were explored. The sea transport of Gujarat is to-day no more than a historical fact. The ports of Gujarat have decayed, some of them are being obliterated even from memory. Even to-day there is no through road connecting Gujarat to Bombay. Where roads are in a better condition, as in Khandesh and Berar, the motor truck

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offers an effective competition to the railway. The war temporarily put a stop to the competition. We expect a more rational transport system in post-war India, but here, as in other spheres, the future is uncertain.

#### Cotton Legislation : 1829-92

The Manchester spinners could hardly put up with the slow, costly, and chaotic marketing of Indian cotton, described earlier. Cultivation of cotton in India had to fulfil two purposes at this time:

- (1) afford a large supply of cotton for the manufactures of Great Britain, and render her more independent of the American market, and
- (2) afford a channel for the employment of British capital hitherto engaged in the opium trade.

Many efforts were made, as we saw, to improve the cultivation and marketing, including ginning, pressing and transporting of cotton. Something more was required, and that was State legislation.

The cotton legislation was not only chronologically the earliest economic legislation of British rule, it was also perhaps the most advanced legislation in the contemporary economic world. State legislation on the production, marketing and trade in raw cotton, besides, provides a running commentary on the history of the economic development of the country, and on the changing pattern of British economic policy in India. The point to note is that legislation of this nature was diametrically opposed to the dominant *laissez faire* economic thought of those days. This proves, if proof were needed, that political authorities are never hampered by any abstract economic doctrine. The Government of India did not bother about the doctrines of Adam Smith. They knew that the British manufacturers wanted good, clean cotton, and that too in plenty. Anything that could achieve this purpose was not only

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politically proper, it was economically sound and morally correct also. They believed in State action whenever and wherever necessary in the interests of British economy. That is how cotton got priority.

From the above, one may be led to infer that the Government of the day believed in State action, or that, since cotton cultivation was being so actively encouraged, there was plenty of food crops. Neither of these inferences would be correct. During the nineteenth century there were numerous famines in India and millions died of starvation. And when a person like Sir Arthur Cotton recommended active State aid, as he did in a letter dated 28th December 1865, the very Adam Smith was quoted against him. The fact is pointedly brought out in a memorandum on the Madras Famine of 1866, submitted by one Mr. Dalzell of the Madras Civil Service.

“ The real objection to the adoption of Sir Arthur Cotton’s proposals, and the reason, doubtless, why they were not adopted when suggested by him on former occasions, is that they are apparently opposed to what has hitherto been the recognised system of political economy, which seems to forbid any direct interference by the State on such occasions, except in the last extremity, and which is decidedly opposed to any Government action in the way of collecting food, as tending to disturb the ordinary operation of the grain market. And it is, doubtless, to this politico-economic theory that is to be ascribed the hesitation on the part of the District Officers to recommend, and of the State to undertake, those decisive measures which would have saved, perhaps, a million of lives in Orissa, and would have materially mitigated the distress which has been felt in Ganjam, in Bellary, and in other parts of this Presidency.”<sup>22</sup>

The point to be noted is that a Government which was decidedly opposed to any Government action in the way of collecting food as tending to disturb the ordinary operation of the grain market, did not hesitate to impose two years’ rigorous imprisonment

#### EARLY TRANSPORT AND LEGISLATION

for adulteration of cotton. Supply of cotton to Lancashire was perhaps more important than supply of food to the starving people in India!

This politico-economic theory, however, never came in the way of subsidies to cotton and of cotton legislation. A publication like this may not pursue the question beyond raising the query.

More than a century ago, in 1829, the Branch of Criminal Judicature of the Government of Bombay enacted a Regulation to provide for the punishment of frauds committed in the packing and sale of cotton. The preamble to the Regulation tells us that numerous and various kinds of frauds were committed in the packing and preparation of cotton for sale, and declares its intention to "check and eradicate the evil of such pernicious consequence to the trade" with appropriate punishments. Further, since the interval which elapsed between the gathering of cotton and the outbreak of the monsoon (by which period it had to be shipped from the ports of Gujarat, first to Bombay and from there to England) was rather brief, the cognizance of the offence had to be effected with the least possible delay.

The penal clause provided that "any person fraudulently mixing good and bad descriptions of cotton in one bale, and fraudulently offering for sale or selling cotton so packed as good cotton, and any person fraudulently deteriorating cotton by exposing it by night to heavy dews, by putting dirt, stones, earth, or any other substance, or salt water amongst it, with a view to making it heavier, shall be punished with fine and imprisonment for the first offence not exceeding two years and on conviction of a second or more offences with fine and imprisonment not exceeding seven years." It was further enacted that "cotton so fraudulently offered for sale and sold shall be liable to confiscation, and to be burnt or otherwise destroyed."

Several prosecutions were launched by the Government, but in spite of the heavy punishments provided in the Regulation,

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results were not very encouraging. The Government of Bombay, while forwarding the reports from various Collectorates in Gujarat to the Bombay Chamber of Commerce in 1840, remarks that “the Regulation appears to have produced no effect in checking the frauds carried on in the packing of cotton; and that as long as the body of merchants interested in the trade in the article with Europe and China does not give its hearty assistance in bringing forward, though at some inconvenience, some of the numerous cases which, if the evil is prevalent, must come before it, H. M. G. fear it is vain to expect any improvement.”

Complaints regarding deterioration continued to pour in and many draft schemes were submitted by District Officers for improvements in the law. In 1851 an Act was passed with the assent of the Governor-General of India, for the Better Suppression of Frauds in respect of cotton in Bombay. With minor alterations the Act repeated most of the provisions of the 1829 Regulation, but added some very objectionable clauses introducing a system of paid informers. The Act laid down that the court “may award the whole or any part of the fines recovered to the informer or informers whose information shall have led to the conviction of the offender.”

The Cotton Brokers’ Association of Liverpool made repeated complaints that “stones were found in bales of East India cotton, the effect of which was to cause fires, which had happened several times in consequence of the ignition in passing through the machine.” In India, the Bombay Chamber of Commerce engaged geologists to analyse the stones and to locate exactly the place where adulteration was being practised.

In 1863, both Regulation III of 1829 of Bombay and Act XV of 1851, were repealed and a more comprehensive legislation—Act IX of 1863—was enacted. Besides providing the usual penalties for adulteration and deterioration of cotton, the Act introduced several stringent measures for the detection of the offence. The Act laid down that “no press used or capable of use, for the purpose

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of compressing cotton shall be so used without a Licence" secured from the Collector of the District. Further, every owner of a cotton press had to lodge before the licensing authority "a cloth parchment or paper, impressed or marked either with some distinctive mark, not less than one foot square, or with his name or that of his firm in letters not less than one inch and a half long, which name for any press in the town of Bombay shall be in the English language." Every bale compressed by any press had to be marked with such a press-mark. The Act also provided for the appointment of Inspectors of cotton whose duty was to suppress the use of unlicensed presses and to examine cotton offered for compression or intended for sale. In the execution of such duty the Inspectors were to have "at all times access to every building and enclosure within which any gin or press for cleaning or compressing cotton was at work," and if the owner, or his servant or his agent, caused any obstruction to such Inspectors in the execution of their duty the licence was liable to be cancelled. The expense of this supervisory administration was to be met by a levy of a fee not exceeding 4 annas upon every bale of cotton exported from any port or place in the Presidency of Bombay to any port or place other than in British India.

The mercantile community was greatly perturbed by this legislation and organised a vigorous agitation for its repeal. It was contended that whatever justification there might have been for so stringent a legislation at the time of the Cotton Famine caused by the American Civil War, now that trading had become normal, an Act which so drastically interfered with the trade should have no place on the Statute-book. Even the Chamber of Commerce, an erstwhile champion of penal legislation, was compelled to change its attitude by sheer force of public opinion. In 1870 it addressed a memorial to the Governor of Bombay for the repeal of the Frauds Act. Some of the main objections pointed out by the Chamber were : (1) the Act made criminal certain acts done in connection with a particular trade which were not in themselves criminal; (2) it taxed the trade to pay the cost of machinery created

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for working the Act; (3) the Act was passed amid great difference of opinion amongst the mercantile community. Also it was passed during a very exceptional state of things as regards the cotton trade; (4) the best and the cleanest *churkha* cotton received in Bombay came from districts beyond the operation of the Act; (5) the Act cost the trade annually more than 2 lakhs of rupees.

The Bombay Government rejected the recommendation of the Chamber and stated that they were not in a position to place the Act in abeyance, but that they would make such alterations in the working as to render it more efficient in future.

The Manchester Chamber of Commerce, to whom the Government of Bombay had referred the question, was, however, in favour of retaining the Act. It said that the testimony it had collected from the consumers was singularly unanimous in favour of retaining all those legal checks against frauds which were then in operation. Considerable light is thrown on the state of contemporaneous cotton trade abroad by its remark that "the adulteration in American cotton during the past year had been unexampled in the annals of commerce, and the cry is becoming urgent for legislative interference for protection against gross fraud and adulteration now prevalent in that vast cotton-growing country."

In 1874, the Government of Bombay appointed a Commission of five persons—on which the only Indian to serve was the Honourable Narayan Vasoodev—to inquire into the working of the Cotton Frauds Act with a view to advising Government on the expediency of retaining it in its existing or modified form. The majority of the Commission was of the opinion that the time had arrived when the Act might be placed in abeyance. Contrary to this recommendation of the Commission, and in spite of the opposition of the entire mercantile community, the Secretary of State for India resolved to maintain the Act. A Bill was introduced in 1877 for modifying such of the provisions of the Act of 1863 as appeared unnecessarily stringent and for rendering the law in other respects more efficient. A public meeting was held to protest against

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the Bill and a lengthy memorial incorporating all the arguments against the legislation was sent to the Viceroy and the Secretary of State, requesting them to withhold their assent to the proposed measure. The Government of India, however, did not go beyond suggesting a few alterations, and in September 1878 a new Frauds Act was passed by the Bombay Government. Once again, in April 1879, the Bombay Chamber of Commerce addressed a memorial to the Viceroy praying for the repeal of the Act of 1878. This time the memorial was successful. The Viceroy, the Marquess of Ripon, in a despatch to the Secretary of State, strongly urged the repeal of the Act, and in April 1880 the Secretary of State gave his sanction for the repeal. But while doing so he observed that he could not but fear that the entire abandonment of all special legislation against fraud in Bombay's cotton trade might be understood as an intimation that fraudulent practices might in future be carried on with impunity. He also pointed out that provisions regarding licensing presses and press marks were not considered objectionable by any one and might be retained. He, therefore, instructed the Government of Bombay to repeal the Act of 1878 and to introduce legislation on the lines of the 1863 Act, minus the provisions regarding the special establishment and the export fee. In pursuance of these instructions the Government of Bombay sponsored a new Cotton Frauds Bill on the above lines, which was passed in February 1881. But the Secretary of State informed them that, according to his information, the Governor-General was persuaded to withhold his assent to the Bill. In view of these developments he advised the Government of Bombay to introduce a fresh Bill repealing all former special legislation on the subject of cotton frauds. Accordingly an Act was passed in 1882 repealing all special legislation that had hitherto been in force in respect of cotton frauds.

Thus ended an era of forceful intervention by the State in the cotton trade of India. Occasions did arise later, as we shall see, for active interference in the trade by the Government, but the object and the nature of that interference were different from those of the early period.

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churka, and secondly, some arrangement for better packing for cart transit.”

The above lengthy extract is from a Memorandum, dated 14th January 1865, on the cotton fields of Nagpur by Mr. Forbes, who was then the Cotton Commissioner for Bombay. Much water has flowed under the bridge since this was written. Yet the description is not without points of similarity with the present.

The years which have rolled by have brought in many changes. High-powered steam and electric engines have replaced the bullock and the bullock-cart for long-distance transport. The ‘native churkha’ is to be found only in pictures. Mechanical gins do the work of separating seed from kapas, and hydraulic presses that of compressing 392 lbs. of lint into a bale. The radio and the telephone flash the prices in the central markets to the remotest villages. The Kulle system of storage is abolished.

Let us have a look at the marketing of to-day.

Cotton is grown in thousands of India’s scattered villages. Conditions vary so much from province to province that it is impossible to give a general description of cotton marketing. A passage from a book on the subject may, however, give some idea of the process.

“The farmer disposes of his cotton either in the village itself or takes it to some adjoining market. Sales in villages appear to be more favoured. The purchaser in the village is either a petty local merchant or itinerant trader or a dala. Occasionally some big Bombay firms, having their offices in town markets in the mofussil, send their agents into adjoining villages to accumulate a sufficient quantity of cotton. All these together make the demand side fairly competitive, and the prices in villages compare favourably with those in primary markets. In Gujarat, the gin-owners, who often are themselves cotton merchants, send their representatives to villages to purchase cotton directly from the cultivators. The money-lenders,

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though they advance money to the cultivators, seldom purchase their crop.

“Besides these direct transactions, a system of forward sales prevails in some districts, the price being either fixed at the time of the contract or left to be fixed at the option of the seller. In Central Gujarat—Broach, Panch Mahal and Baroda State—the gin-owners arrange with the cultivators, at the commencement of the harvesting season to purchase their approximate crop at a particular price on the basis of samples. As the crop is harvested, the farmer delivers his cotton directly at the ginneries for weighment. Sales by auction are not frequent.

“In villages the transactions are done leisurely at any hour of the day. But in town markets the carts assemble at some fixed place mostly in the early morning. In some districts the compound of a ginning factory serves as a cotton market. In Khandesh and the Karnatak some municipalities, e.g. those of Jalgaon and of Hubli provide open spaces for the purpose of the cotton market. In Dhulia, the biggest market of West Khandesh, prior to the establishment of a regulated market, and even afterwards, two ginning factories allowed the use of their land gratis for the purpose.

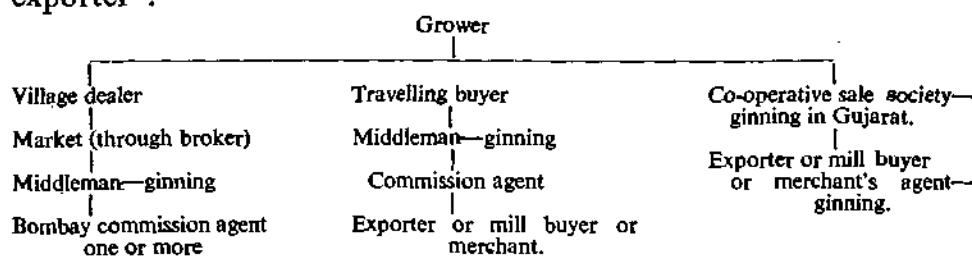
“Merchants and brokers begin to assemble in the market place from early morning. By the time they come, most of them are telegraphically informed both about Bombay’s closing rates the night before and the latest American Futures. Soon after begins a process of noisy bargaining between buyers and sellers, but more often between their respective dalals and adatiyas. Dalals move about with samples from the carts of their clients, showing them to prospective buyers. Bids are made under cover of a piece of cloth by a peculiar code of fingers.

“The first price that is agreed upon by any two parties is taken as the ruling price for the day, allowance being made for the difference in quality. Within an hour or so, the whole market yard is cleared, with none but a few stray cattle grazing unconcernedly.

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"The carts go to the ginneries, where the cotton is weighed. At some places the Co-operative Society provides a weigh-bridge. (There is a confusing variation in the weights used in different markets.) After the weight is recorded, the kapas is heaped on the bare ground, to await its turn for ginning. A few factories now-a-days provide godown facilities. By evening the cultivator usually gets his payment, and returns to his village, after making some purchases in the town or indulging at an ale-house."<sup>2</sup>

The Bombay Provincial Banking Enquiry Committee (1930) give the following diagram indicating the channels through which cotton usually passes from the grower to the mill-buyer or the exporter :—



But they also remark that "variations are numerous and the number of middlemen is sometimes larger."<sup>3</sup>

As mentioned above, the bulk of the crop is sold in the village itself. In 1928, the Indian Central Cotton Committee conducted an investigation into the financing and marketing of cotton in various cotton growing districts of India. Their investigations showed that the cultivators displayed a clear preference for selling their crop in their own village. This was mainly due to the fact that "the rates in the village compare very favourably with the prevailing market rates"<sup>4</sup> in nearby towns. That cotton merchants, representatives of spinning mills, and even exporters go to the remote villages of India in search of cotton suggests the existence of a lively competition in the trade.

Thanks to the keen competition in the trade, probably an indication of veiled unemployment, the middleman's functions are performed at the lowest possible cost. If price-spreads are taken as

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our guide, probably there is no other commodity in India which is marketed as economically as cotton. Strangely, this very competition which reduces price-spreads is also responsible for the temptation to resort to malpractices. If the middleman cannot obtain a fair return through legitimate trade practices, he will want to make an extra rupee on the sly. The absence of adequate profit margin for the intermediary, it is suggested, is really at the root of the evil practices of adulteration and watering of cotton.

Many attempts have been made to eliminate the malpractices and improve the marketing by State legislation. In an earlier chapter we have reviewed the chain of very stringent Government legislation for checking the malpractices in cotton marketing of those days. The Central and Provincial legislation which we now propose to review, is of a very different character. It betrays neither the anger nor the impatience of those legislators. The first piece of legislation to be enacted after 1900 was the Cotton Transport Act 1923. It was passed with a view to enabling the Government to restrict and control the movement of inferior cotton into zones which grew a better variety. Experience had shown that efforts at improving and maintaining the quality of cotton were frustrated by admixture of seeds of inferior varieties. The Act empowered provincial governments "for the purpose of maintaining the quality or reputation of the cotton grown in any area in the province, to prohibit the import of cotton or of any specified kind of cotton into that area by rail, road, river and sea, or by any one or more such routes, save under, and in accordance with, the conditions of a licence." Contravention of the provision of the Act was liable to be punished with a fine and, upon any subsequent conviction, with imprisonment.

Several provincial governments have made use of this legislation to notify Protected Areas into which imports of cotton, except under a licence, are prohibited. There are some loopholes in the Act and its administrative enforcement is rather difficult, yet on the whole the Act has had a salutary effect in preserving the purity of certain better varieties of cotton.

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In 1925, the Government of India enacted the Cotton Ginning and Pressing Factories Act. It was thought that many of the malpractices took place in cotton gins and presses, and that, if a check could be exercised at these places, there would be considerable improvement in marketing of cotton. Practically the responsibility for prevention of frauds was placed on the owner of the factory. The owner of every cotton ginning factory was asked to maintain in a prescribed form a record of (1) all cotton ginned in the factory, (2) the names of the persons for whom, and the date on which, the cotton was ginned, and (3) the amount ginned for each person. The owner of every press factory had to maintain a similar record and, in addition, had to arrange to get every bale marked with a serial number along with the number and the mark prescribed for the factory. The idea was that if, at a later date, any fraud was discovered with regard to any bale, it should be possible with these arrangements to trace the culprit. Further, the owner of every cotton pressing factory had to submit weekly returns to a prescribed authority showing the total number of bales of cotton pressed in his factory.

Except for the use of standard scales and weights, however, the Act at that stage, did not make any direct attempt to prevent malpractices. With regard to scales and weights, the Act laid down that "no scales and weights should be used in any cotton ginning or pressing factory, other than those prescribed by the Central Government as standard for the district in which the factory was situated." Contravention of the above provision on the part of the owner was liable to be punished with a fine extending to fifty rupees for the first offence, and five hundred rupees for subsequent ones. The Act empowered provincial governments to make rules consistent with the Act. Many provincial governments utilised this power to enact more comprehensive legislation covering some other types of malpractices. In 1936 the Government of Bombay passed an Amending Act, which greatly extended the scope of the original Act. In the first place, it introduced a system of licensing every ginning and pressing factory. Working a factory without a licence was made punishable with fine. Further, it introduced provisions prohibiting the mixing

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and watering of cotton, the two notorious malpractices in the cotton trade. Breach of the rule was punishable with a fine extending to Rs. 5,000. The Act empowered Gazetted Officers to enter into and inspect, at any reasonable time, any cotton ginning or pressing factory for the purpose of ascertaining whether there was any contravention of the Act. With regard to weights and scales, the Government of Bombay passed a separate Act known as the Bombay Weights and Measures Act of 1936. In the first instance, the Act was applied only to Sind. Later it was extended to the whole Province by a notification of the Government of Bombay, dated 28th November 1938.

It was always understood that the place which was most convenient for the regulation of primary marketing was the up-country market. For years its conduct was regulated by custom and tradition. The buyer belonging as he did to a more wealthy and influential class, encouraged and evolved trade practices which were often inimical to the cultivator's interests. As early as 1897, cotton markets in Berar were regulated by the Berar Cotton and Grain Markets Law. In 1927, the Government of Bombay passed a similar legislation called the Bombay Cotton Markets Act. The object of the Act was "to provide for the establishment of recognized open markets for the purchase and sale of cotton in the Bombay Presidency and for the better regulation of such markets." It empowered the local government, after it had consulted the District Local Board and such other local authorities, to notify a particular area as a cotton market. Trading outside the notified market was made an offence.

The Act, though not yet universally applied, is a comprehensive measure and can be effectively used for checking certain types of malpractices. Markets organised under the Act are called "regulated markets." A Market Committee consisting of the representatives of merchants, cultivators and local authorities, is entrusted with the management of the market. A special Sub-Committee called the Disputes Sub-Committee attends to disputes (*Vandhas*) and exercises a healthy check on the prevailing system of *Kadada*.

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(quality allowance). Licences are issued to brokers, weighmen and other market functionaries. Arrangements are made for displaying the latest price quotation from Bombay for the information of sellers. A regular record is kept of relevant information such as arrivals, prices, etc., pertaining to the market. At present there are 13 regulated cotton markets in the Bombay Province.

Co-operative marketing is often recommended as a means of securing a larger percentage of the consumer's rupee for the producer. But it has as yet not made much progress in India. In Bombay Province, by the end of 1945, there were nearly 60 cotton sales societies and sales of cotton through them amounted to Rs. 5.5 million. A better idea about the role of these societies can be had by reviewing their working in three different regions : Gujarat, Karnatak and Khandesh.

In the Surat and Broach Districts of Gujarat there were 28 sale societies in 1944. During the 1945-46 season, they sold cotton worth Rs. 2.5 million. The area of operation of Gujarat societies is limited to a few villages, selected with a view to maintaining homogeneity. Farmers bring their kapas to the society, which pools it and gets it ginned and pressed in co-operative factories, where they exist, or in factories approved by the society. The societies have a Federation which advises them on market conditions and, whenever possible, finds buyers for their cotton. The Federation has acquired a significant place in the cotton market of Surat. During the 1944 season, 12.7 per cent. of the total sales in the Surat market were effected through the Federation. The district further had the unique distinction of having four out of India's seven co-operative cotton ginning and pressing factories. The co-operative factories have exercised a healthy check on the rates charged by private owners for ginning and pressing of cotton.

In the Karnatak, the Hubli and the Gadag Co-operative Societies were started in 1917. Individually, these societies serve a larger area than that served by the Gujarat societies. They have

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introduced grading of cultivator's cotton and have made use of the auction system for realising top prices. The societies have made a great contribution to the work of distribution of improved varieties of seeds. The total sales of the Hubli Cotton Sale Society amounted to Rs. 763,000 in 1944-45. The total value of sales of cotton and other commodities by the Gadag Cotton Sale Society during the same year, amounted to Rs. 2.75 million.

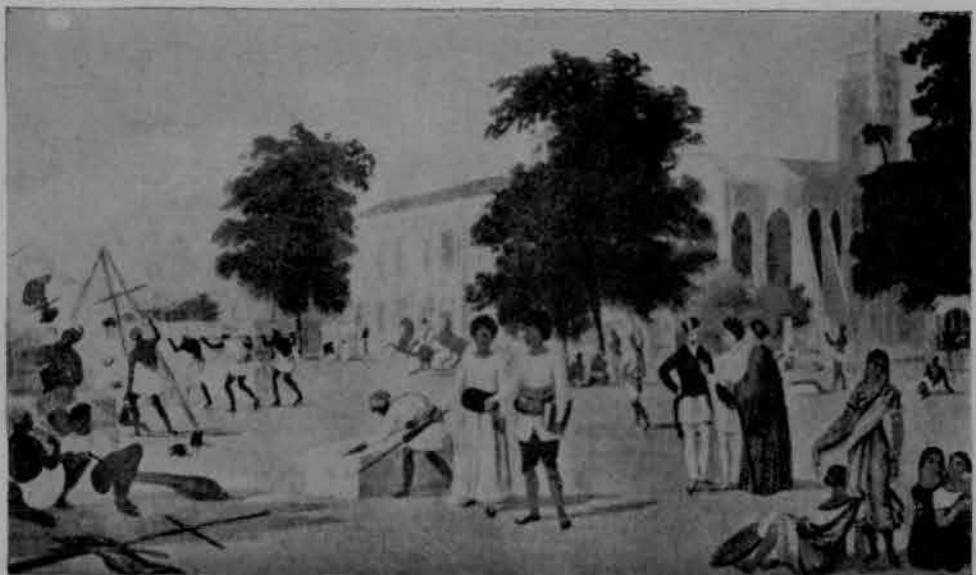
In Khandesh, though the co-operative sales movement was organised in 1917, it was only during the war years that it gathered some momentum. Cotton sale societies have been organised in East Khandesh for marketing pure Jarilla cotton under the "Agmark"—the Government certificate of purity. At present there are 16 sale societies. During 1945-46, they distributed large quantities of pedigree seed and sold cotton worth Rs. 430,968.

Marketing legislation and the co-operative movement have had their effect in improving the marketing of Indian cotton. Yet it would be erroneous to believe that no further improvement was necessary. Hundreds of up-country markets are yet untouched by Government regulation or control. Our cotton marketing is yet not wholly free from watering and adulteration. Cotton travels ungraded till it reaches the terminal market. There are no licensed warehouses which can give it adequate physical and financial accommodation. Improvements are thus necessary in many directions and we may fittingly close this chapter by reproducing a passage from an order, issued as early as 1865 by the Chief Commissioner of the Central Provinces, for the better cultivation and marketing of cotton. Time has not blunted its significance.

"To sum up then, Government is to recommend to producers that they may be more careful in the selecting land for cotton crops; that they do not (so to speak) sow in and in; that they be careful in weeding their cotton fields; that they pick their cotton more frequently and more carefully, that they keep their cotton, when picked, in baskets, safe from dust and rain; that in carting their

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provisions of the Cotton Frauds Act.<sup>1</sup> The only permanent organization of merchants then was the Bombay Chamber of Commerce, established in 1836. Till then, perhaps the commercial community in Bombay had not evolved specialized organizations for different trades, organizations of the trade association type, wherein membership is restricted to participants in a single trade. The earliest evidence of collective action by Indian merchants dealing in a particular commodity is provided by the unpublished minutes of the Cotton Dealers' Managing Committee. On 25th July 1855, a meeting of some 200 Indian cotton merchants, traders in cotton bales and dhokras, muccadums for the buyers' section and muccadums for British offices was held to discuss a problem which affected their particular trade.<sup>2</sup> The meeting passed a resolution to abolish the custom then prevailing, by which various functionaries in the cotton trade such as buyers' muccadums, markers and sample-takers, as also sellers' muccadums and others took a certain quantity of cotton from bales and dhokras in payment for services rendered, and to substitute cash allowances for all of them. The claims of beggars, the lame and the blind, who used to receive loose cotton in alms also came up for review. A list of such beggars, who had almost earned a prescriptive right to receive alms, was drawn up and cash payments were fixed for them. A sum of Rs. 525 was to be paid to the Trustees of the *Panjrapole* for every breach of the rules laid down. In pursuance of this resolution, the Association, in a meeting held on 1st September 1855, decided to impose a *laga* (cess) on all cotton imported into Bombay. The fund was to be administered by a Committee of four trustees. Elaborate arrangements were prescribed for the administration of the fund: clause 8 of the resolution, for example, laid down that "pigeons and other birds should be fed daily and rupee one be spent for that purpose. The officer—whose appointment was sanctioned by an earlier clause—should particularly see that this was duly done." A meeting of the same body held on 10th August 1857, resolved to abide by a set of rules which was drawn up for the transaction of cotton business. The preamble to the Rules says :

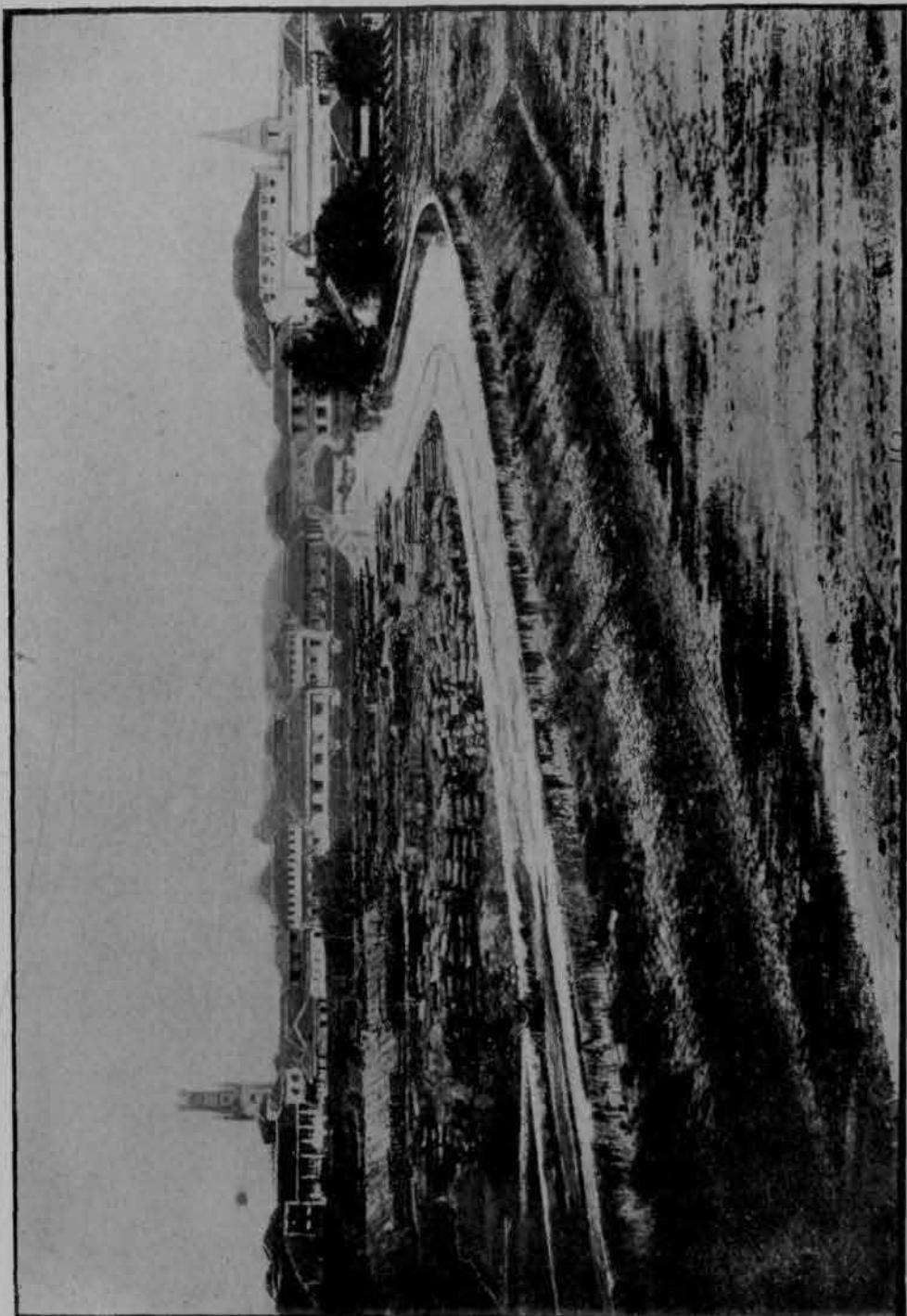


*Bombay Green, 1811*

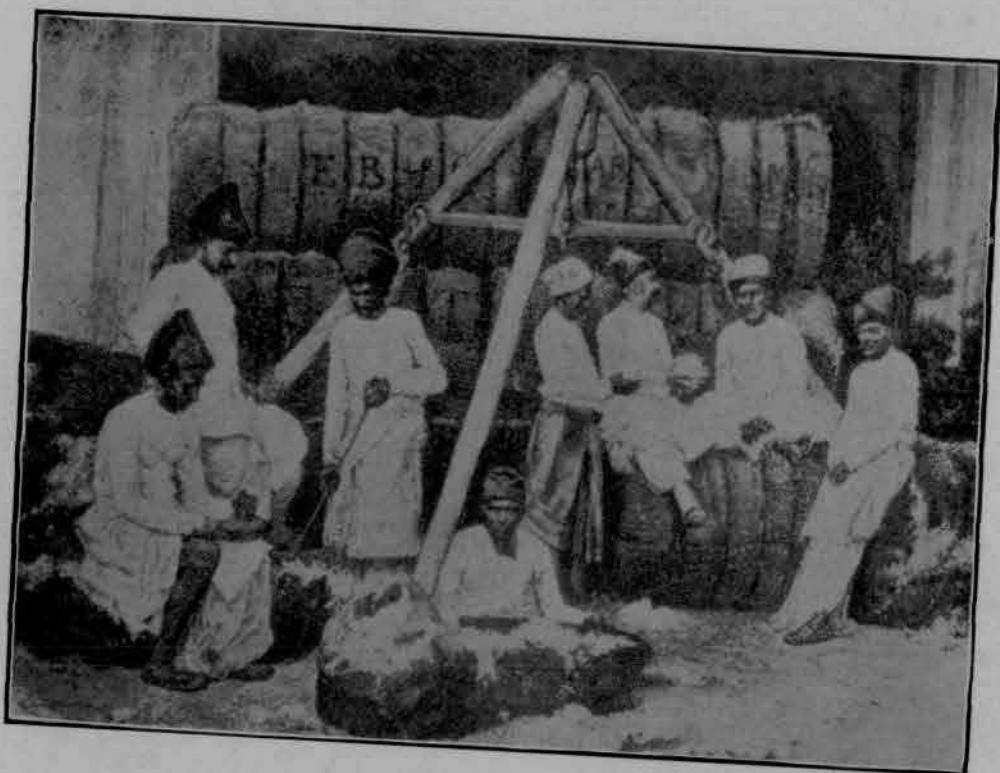


*Cotton Green in the Sixties.*

*Cotton Green, Bombay, 1860*



Colaba Causeway, about 1862 (Cotton Bales to the left)



*Cotton Merchants at Market, Bombay, 1870.*

#### COTTON MERCHANTS GATHER

"We bring cotton from outside places and sell the same to European and native merchants. We also transact business between ourselves. But the rules of transaction differ very much on many items. It was, therefore, decided at the General Meeting of Shravan Sud 5, Samvat 1913, that all business from now on be transacted as agreed upon at that meeting. That agreement has now been reduced to writing and being acceptable, we the following sign it."<sup>3</sup>

The Rules provide for (1) *kabalas*—contracts—of uniform type, printed and supplied by the Managing Committee, (2) uniform packing of cotton bales, and (3) settlement of disputes by arbitration. Penalties were prescribed for any breach of rules, but, unlike at present, all penalties were to be paid to charitable institutions. Here was perhaps the earliest trade association in India discharging some of the most typical functions of a trade association. Compared with a modern trade association, with its elaborate Articles of Association, buttressed with State charters or statutory recognition, this organization may appear to be rather rudimentary. There were no heavy membership fees, no iron-clad contracts, nor was trading restricted to members only. Yet in the loyalties they evoked and the discipline they maintained, these organizations were perhaps not inferior to those of to-day. Those were days when custom and usage had still a binding force as great as, if not greater than, that of the statutory law of to-day.

In 1884, another association, the Bombay Native Cotton Merchants' Association, was formed. In the preamble to the Rules framed by the Association, it was mentioned that there often arose difficulties and disputes in the transaction of their business. A meeting was held on 16th September 1883, to consider how best to avoid difficulties and disputes and to transact business amicably. A Managing Committee was formed from amongst the members present to draft rules for the purpose. At a meeting held on 25th December 1884, draft rules were finally approved.<sup>4</sup> The Association was formed "for promoting the interest of the cotton trade and for the amicable settlement of disputes arising in the course of business." The Rules

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reveal a greater commercial consciousness than that which existed at the time of the formation of the Cotton Dealers' Association in 1855. For example, a regular membership, with membership fees and a right to vote was created for the first time. Rules were made for tendering cotton on the maturing of the contract, and for determining the rights of buyers as well as of sellers in case of default by either party. The range of tenderable cotton was limited to a maximum allowance of Rs. 4 per candy to the buyer. Buying and selling "on account" were provided for and a rather elementary procedure for finding out "the last buyer" was also laid down. Other rules made provision for uniform methods of weighing, packing, and sampling. It may, however, be noted that as the size and the weight of bales from different regions were different, separate rules had to be made for each region.

With the establishment of the Native Cotton Merchants' Association, we enter into the second stage of the development of Trade Associations in India. Business, or rather responsibility for business, is sought to be confined to a select number of members. A measure of uniformity in methods of transacting business, with specific rights and liabilities for buyers and sellers of Futures contract is introduced. Futures Trading itself, however, was in a rudimentary stage, and the rules framed by the Association were probably just adequate for the business technique of the times.

In 1875, European firms in Bombay, engaged in the cotton trade, formed an organization called the Bombay Cotton Trade Association.<sup>5</sup> Little is known about its activities for some 20 years. We have a copy of its Memorandum of Association dated 13th May 1892, when probably the Association was re-organized. The Association was a joint stock company, with a share capital of Rs. 50,000, divided into fifty shares of Rs. 1,000 each and practically all the shares were held by non-Indians. In the Memorandum of Association, the main objects for which the company was established are stated as follows:—

- (1) To provide and maintain a suitable building for the accommodation of members of the Association;

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(2) To adjust disputes between persons engaged in the cotton trade, to establish just and equitable principles in the said trade, to maintain uniformity in rules, regulations and usages of the trade, to adopt standards of classification, to acquire, preserve and disseminate useful information connected with the cotton interests, and generally to promote the cotton trade of the City of Bombay and India, and augment the facilities with which it may be conducted.

In a schedule attached to the Articles of Association we find Rules for Deliveries and Arbitrations. It appears that at that time there was a provision for three Futures Contracts ; (1) for Good Staple, for cotton from Khamgaum, Karanja, Akola, Barsee, Nagar ; (2) for Medium Staple, for cottons from Khandesh, Indore and Sheagaum ; and (3) for Belatee, for cotton from Oomrawutee, Akote and Dhamangaon. Further, an attempt was made to fix a basic standard for each one of these. Here perhaps we have in an embryonic form the first traces of Hedge Contracts.

There was considerable dissatisfaction amongst leading Indian cotton merchants and millowners with the European complexion of the Bombay Cotton Trade Association. Cotton was no longer a mere important item of the export trade. With the establishment of textile industry in the country it had assumed a new significance in the national economy. Thus, apart from the racial aspect, a difference of outlook on cotton problems was probably beginning to develop between British and Indian interests. About 1890, some leading Indian merchants led by Sir Dinshah Petit, the first Baronet, Cursondas Vallabhdas of the firm of Jivraj Balu, and Narandas Purshottamdas of the firm of Narandas Rajaram and Company, organized the Bombay Cotton Exchange Limited. The Company was started with a capital of Rs. 25,000 in 500 shares of Rs. 50 each. The Bombay Cotton Exchange and the Bombay Cotton Trade Association shared between them the control of the cotton trade from 1893 to about 1918. In an attempt to democratize the Association, the latter issued in 1907 three new shares, of which two were given to Indians and one to a Japanese firm, at a valuation of about

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Rs. 1,200 per share. Sir (then Mr.) Purshotamdas Thakurdas was the first Indian to act (in 1907) as Surveyor and a member of the Appeal Committee of the Bombay Cotton Trade Association.

There is not sufficient documentary evidence available during the period 1893 to 1918 to show how business in cotton was carried on and the risk attendant thereon borne by different sections in the trade. The membership of the Bombay Cotton Trade Association and the Bombay Cotton Exchange did not embrace the whole cotton trade. The former was a body of European merchants 75 per cent. of whom were exporters and the rest importers. In the Bombay Cotton Exchange 25 per cent. of the members were exporters and the rest importers. Besides these, there were shroffs who financed business, muccadums who gave and took delivery of cotton and the brokers who sold and bought in Futures, who were not members of either of these two bodies. The risk of trading in Futures was largely borne by the brokers' section of the trade. These useful sections greatly helped in the financing of business in ready cotton and carrying the risk in the forward market. Settlement of forward contracts being yearly, fluctuations in the market were wide and largely dependent upon yearly big Teji-Mandi operations. There was then nothing like the present system of Hedge Contracts or payment of differences on open contracts through settlement clearings. Delivery contracts were dealt in Akola/Khamgam, Amroati, Dholleras and Broach cotton with delivery period only once a year, i.e., March, and subsequently April.

In 1915 the Bombay Cotton Brokers' Association was formed with the object of "protecting the business morality of merchants and regulating the trade smoothly." This institution had to carry on its activities against difficulties, as its members had no voice in the management of either of the two bodies referred to above. The Association hired premises in the Marwari Bazaar and, in the Patia or Ring of this building, all forward business in cotton was carried on under the auspices of this body in the morning session of trading, the evening session being held at Colaba. Even when the Cotton

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Contracts Committee, appointed by the Government of India in June 1918 under the Defence of India Rules, came on the scene, forward business in cotton continued to be carried on in the Trading Hall of the Brokers' Association. On the recommendation of the Wiles Committee the control of this Ring for forward trading in the Marwari Bazaar was given over by the Bombay Cotton Brokers' Association to the East India Cotton Association, in August 1934.

It is interesting to note that the premises of this Trading Hall and two other adjacent buildings were purchased by the E.I.C.A., and in 1935 the present Cotton Exchange Building was erected on the site.

In spite of these piecemeal efforts to systematize and regulate the cotton trade, when the War broke out in 1914 the trade was in a rather anarchic condition. There was no single organization commanding the allegiance of the entire trade, with authority to frame and enforce rules. There were no well-defined Hedge Contracts and there was no system of periodical settlements, with the result that there was little which could distinguish genuine trading from speculation. In fact, there is evidence to show that the market was completely dominated by speculative interests. The Government which in the previous century had shown such great sensitiveness on the question of frauds and adulteration and had enacted stringent penal laws for their suppression, was completely apathetic to this equally vital question of the regulation of the cotton trade. The War, however, shook its complacency.

Prices of cloth were rising and it was felt that heavy speculation in raw cotton leading to an inordinate rise in prices of cotton was partly responsible for this. The price of the Broach contract for April 1918 settlement went beyond Rs. 700 from Rs. 400 a year before.

This gave an impetus to the question of Government regulation of the Cotton Trade.

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The Cotton Trade at that time suffered from three grave defects :—

- (1) absence of any system of periodical settlement ;
- (2) extreme narrowness of the forward contracts ;
- (3) absence of any controlling body with power to enforce its decisions.

Though the Broach settlement passed off without any calamity it created apprehension among many sections of the trade. The Bombay Millowners' Association approached the Government with a request to take steps to put the trade on a healthy footing. The Indian Cotton (MacKenna) Committee, which was at that time examining the question of extending the cultivation of long-staple cotton in India, submitted, in response to a special request by the Government of India, an interim report recommending the establishment of one central association in place of eight distinct bodies\* which at that time were interested in the cotton trade. The Government of India arranged a meeting for this purpose, which was attended by the President of the Chamber of Commerce and 24 other representatives of the different Associations connected with the cotton trade. The meeting unanimously emphasized the necessity of establishing a Government-sponsored controlling body and a system of settling accounts through a Clearing House. Acting on this recommendation, the Government of India issued in June 1918 Rules under the Defence of India Act constituting a Cotton Contracts Committee with the following duties :—

- (1) to prescribe the classes of contracts in respect of which differences were to be paid through a Clearing House ;

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\* 1 The Bombay Cotton Trade Association  
2 The Bombay Cotton Exchange  
3 The Cotton Brokers' Association  
4 The Cotton Muccadums' Association  
5 The Marwari Chamber of Commerce  
6 The Gujarati Shroff Mahajan  
7 The Japanese Shippers' Association  
8 The Millowners' Association

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- (2) to establish a Clearing House for periodical settlement of differences ;
- (3) to prescribe a procedure for fixing and declaring market rates for cotton of various descriptions ;
- (4) to provide for the licensing of brokers.

No person could enter into a Clearing House contract except in accordance with the form, the conditions and the regulations prescribed by the Committee. Breach of rules was punishable with imprisonment extending to six months, or with fine, or with both.

A press note issued by the Government of Bombay made it clear that the rules under the Defence of India Act were enacted to meet a special occasion and were to be replaced by legislation. It was hoped that that legislation would lead ultimately to the establishment on a permanent basis of a Central Cotton Exchange in Bombay.

The Cotton Contracts Committee appointed by the Government of Bombay consisted of nine persons representing different sections of the trade, with Sir Gilbert Wiles as the Chairman. The form of contracts and rules under which transactions were to be made were framed. It may be interesting to note that the following five Hedge contracts were officially recognized : (1) Fully Good M. G. Bengal, (2) Fully Good M. G. Broach, (3) Fine M.G. Fair Staple Oomra, (4) Fully Good M. G. Fair Staple Oomra, and (5) Good M. G. Good Staple Southerns. The Committee enrolled members and licensed brokers. A Daily Rates Committee, a Clearing House Committee and an Appeals Committee were constituted. Settlement rates were fixed and the first settlement clearing was held on 18th September 1918.

The Committee functioned till 25th January 1919. As already stated, the Cotton Contracts Rules under the Defence of India Act were intended to be temporary and were to be replaced by legislation.

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The Government of Bombay, accordingly, introduced in October 1918 a Bill "to provide for the control of dealings in cotton in the Presidency of Bombay." In the statement of Objects and Reasons it was pointed out that:

"The conditions which rendered possible the occurrence of the crisis of the present year were mainly two: the long period of the principal settlements and the narrow basis of the contract. The remoteness of the time of settlement leads to speculation to an extent which is not necessarily correlated in any way to the resources of the parties; while the custom of requiring performance of a contract in the particular variety of cotton contracted for leads to great fluctuations of rates, specially as speculative contracts are frequently made in respect of a particular variety of which the crop is small in quantity. The chief remedies required by the situation are therefore the substitution of short-term for long-term settlements and such a regulation of the conditions of contract as will render possible a broadening of the basis of contract. The Defence of India (Cotton Contract) Rules, 1918, proceeded on these lines. Some organization (technically known as a "Clearing House") to facilitate the settlement of differences, and an authority with power to fix the market rates for settlement and generally to regulate matters ancillary to the foregoing, are also required and have been provided for in the rules."

The Act was to remain in force during the continuance of the War and for a further period of not less than six months and not more than two years. It was pointed out that no provision was being made to transfer the duties and liabilities of the Board on the expiration of this Act, because it was anticipated that a permanent legislative measure, in such form as the working of the Act might indicate, would be placed upon the Statute Book before that date.

The provisions of the Bill were more or less identical with those of the Cotton Contracts Rules. The control, according to the Draft Bill, was to be vested in a Cotton Contracts' Board, consisting

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of a Chairman and eight other members, all nominated by the Governor-in-Council. There was, however, a strong feeling in favour of the introduction of the elective principle in the constitution of the Board, and the Select Committee recommended an amendment by which the Board was to consist of a Chairman and eleven members. The Chairman and six of the members were to be appointed by the Government. Of the other five, three were to be elected by the members of the Clearing House constituted under the Defence of India Rules, and two were to be elected by the Millowners' Association. Another important change was the omission of the penal clause and its substitution by one which made a contract contravening the regulations simply void. This, as we shall see later, gave rise to quite a crop of difficulties.

The Bill was ably supported by Sir Purshotamdas Thakurdas. He traced the entire history of cotton legislation since 1829. He dispelled the apprehension that the consequences of such a legislation might be the same as those of the Frauds Act of 1863, by pointing out that while the Act of 1863 caused interference in the trade by the Government, the object of the proposed legislation was the unification of the trade and its regulation by the representatives of commercial interests only. He, however, pleaded for an enlargement of the Board and for the introduction of the elective principle. As already mentioned, the Bill was suitably amended to accommodate this point of view. After a rather tedious legislative process, requiring the sanction of the Governor and the Governor-General, the Bombay Cotton Contracts Control (War Provisions) Act, 1919, was published on 25th January 1919 in the *Bombay Government Gazette*.

The Cotton Contracts Board began to function from this date. The Board had to carry out a strenuous and onerous task. The discipline of the Clearing House was jarring to some traders who were accustomed to the freedom of the good old days. The speculative element found it difficult to shed their attachment to the old-type contracts for specific grades and to take to the "wider"

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Hedge contracts. The device of the Clearing House was new to the trade and the Board had to surmount many obstacles and difficulties before all the desiderata of fixing of rates, tendering of cotton, and payment of differences could be properly co-ordinated.

At the suggestion of the Government of India, the Board also framed a Memorandum and Articles of Association for an East India Cotton Association which was to receive statutory recognition as its successor. The scheme, however, did not meet with the approval of several interests in the trade.

As the Bombay Cotton Contracts Control (War Provisions) Act, 1919, was a temporary measure, in 1921 a Repeal Act was introduced in the legislature. According to this Act, the Board was to cease functioning with effect from 15th November 1921. The East India Cotton Association, Ltd., which was registered on 19th October 1921, under the Indian Companies Act, was intended to step into the place of the Board. But once the legal sanction of the Board was removed, several members refused to recognize any obligation to settle differences through the Clearing House. A corner was attempted in December-January 1922 Oomra contract. Heavy liabilities were accumulating and the whole trade was faced with a grave situation. The Board sent a deputation to the Governor of Bombay to prevail upon him to withhold his assent to the Repeal Act. The Governor agreed and the Board continued to function till another Repeal Act (Act III of 1922) terminated its life on 1st June 1922, with a provision for its posthumous functioning in regard to the settlement of outstanding contracts.

Meanwhile, Sir Ness Wadia was patiently working, "practically every day and all day" (to use his own words) between July and November 1918 on formulating a scheme for the establishment of the East India Cotton Association. The MacKenna Committee had recommended that Sir Ness should prepare a scheme for the establishment of a Central Cotton Trade Association in Bombay, in consultation with the Directors of the Liverpool Cotton Association and with Mr. N. S. Glazebrook, who for many years

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was Chairman of the Bombay Cotton Trades Association. Sir Ness Wadia prepared an elaborate scheme and forwarded it to the Government of India, who in their turn sent it to the Government of Bombay, with a lengthy forwarding letter—25th September 1920—wherein they made their own observations on Sir Ness Wadia's scheme. They promised to undertake legislation—preferably to ask the Government of Bombay to do so—with the object of giving statutory authority to such an Association for controlling the trade, provided they were satisfied that the Association was representative of all sections of the cotton trade in Bombay and that the rules and bye-laws were drawn up in the best interests of the trade as a whole.

A scheme was drawn up by the Cotton Contracts Board on the lines of the one prepared by Sir Ness Wadia, and a Committee was appointed with Sir Purshotamdas Thakurdas as Chairman to discuss the same with the representatives of the Bombay Cotton Merchants' and Muccadums' Associations, the Marwari Chamber of Commerce and the Bombay Cotton Brokers' Association. Many meetings were held in November 1920 for this purpose. The representatives of some of these Associations were opposed to certain provisions in the Articles of Association, specifically to those which (1) restricted membership to those handling 5,000 bales of actual cotton in a year, (2) required a security deposit of Rs. 10,000, and (3) did not provide for a separate representation of brokers on the Board of Directors.

As the scheme was not generally acceptable to the trade, the Cotton Contracts Board arranged, on 8th December 1920, another meeting of the Directors of the different Associations concerned with the cotton trade, to consider the question of drawing up a Memorandum and Articles for a new association. A Committee, with Sir Mathuradas Vissanji as Chairman, was appointed to draw up a scheme. After prolonged discussions, and many mutual concessions, the Committee formulated a skeleton scheme which was agreed upon by every one except Mr. Rahimtulla Currimbhoy, the representative of the Bombay Millowners' Association. The main point

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of disagreement was with regard to the number of Hedge Contracts. The Millowners insisted on a single Hedge Contract, while the brokers in particular wanted more and narrower contracts.

On 1st April 1921, the Committee presented the skeleton scheme of a new Association to the members of the Clearing House, and requested them to submit their membership applications to the Secretary of the Cotton Contracts Board. A meeting of all such members was held on 25th May 1921, when the scheme was generally approved and adopted. A provisional Board was appointed with powers to make such alterations as might be suggested by one or more members, or by a member of any Association, so long as these were not prejudicial to the main spirit and object of the scheme. The Millowners' Association and its members did not join the new Association. Some amendments and additions to the original scheme were approved and accepted by the Provisional Board. By now some 400 members had joined the Association. On 23rd July 1921, an election was held to form the Representative Committee, consisting of 15 representatives each, of the Exporters, Importers, Commission Agents, Jaithawalas, Muccadums and Brokers. The Association was registered under the Indian Companies Act on 19th October, 1921.

At the outset, the Association adopted, *mutatis mutandis*, the Rules of the Contracts Board. From 1st November 1921, all existing contracts entered into under the Rules of the Cotton Contracts Board were transferred to the East India Cotton Association. The Millowners' Association had still kept out of the Association and the Government of India had made it clear that they would give statutory recognition only to an Association which commanded allegiance of all sections of the trade. The Millowners' contention was that the proposed constitution of the Board gave a preponderating voice to the sellers of cotton, and secondly, that the Hedge Contracts were so narrow that the price of the Futures Contract would always remain high. Strenuous efforts were made to secure the co-operation of the Millowners. On an assurance given by the East India Cotton Association that the number of Hedge Contracts

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would not be increased or further narrowed down and that the composition of the Board of Directors would give parity to the buyers' section, the Millowners advised their members to join the new Association.

On 19th June 1922, the East India Cotton Association, Ltd. made a representation to the Government of Bombay requesting that statutory powers be conferred upon it to enable it to regulate the cotton trade effectively. In response to this, the Government of Bombay published, on 21st July 1922, a Bill to provide for the regulation and control of transactions in cotton in the Presidency of Bombay. The statement of Objects and Reasons said:

"The Bombay Cotton Contracts Board was constituted by the Bombay Cotton Contracts Control (War Provisions) Bombay Act I of 1919, as a temporary measure. This Act has now been repealed by Bombay Act III of 1922. The experience gained during the short period of the existence of the Act of 1919 has shown that without legislative authority no voluntary Association can hope to control the cotton trade of Bombay for any length of time. The chief reason why it had been hitherto found impossible to give legislative authority to the East India Cotton Association was the lack of unanimity in the trade itself. In particular the large and important section of the Millowners had withheld their approval from the constitution of the Association and refused to join its membership. With the co-operation of the leaders of all sections of the trade this lack of unanimity has now been removed. The Millowners' Association, Bombay, have withdrawn their opposition to the constitution of the East India Cotton Association as now amended. The East India Cotton Association now represented to Government the urgent necessity of passing an Act (a) conferring upon it statutory powers similar to those which were possessed by the Cotton Contracts Board to enable the due regulation of the cotton trade and (b) sanctioning the administration machinery contained in the Association's Articles of Association which experience has shown to be essential for the due carrying out of the purposes of the Association.

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Government therefore propose to legislate on the lines indicated in the Bill."

The Bill empowered the Board of Directors, subject to the sanction of the Governor-in-Council, to make bye-laws for the regulation and control of the trade. The constitution and the administrative machinery set out in the Association's Articles of Association were given legal recognition. Contracts which contravened the bye-laws of the Association were declared void.

The Bill had the support of a large and influential section of the trade, though there was a vocal minority in the legislature, which, most probably under some misapprehension, organized a strong opposition to it. The voting was very close, but the Bill went through all the stages of legislation, and on 28th December 1922, the Bombay Cotton Contracts Act, to provide for the regulation and control of transactions in cotton in Bombay, was placed on the statute book, and the East India Cotton Association received its statutory authority. Thus, it took nearly seventy years for the informal gatherings of cotton merchants to mature into a full-fledged East India Cotton Association, Ltd., registered under the Companies Act and recognized by the Government of Bombay. Though not yet perfect, it has all the characteristics of a well-knit trade association, with membership fees, forms of contracts, settlement and clearing house machinery and a system of arbitration. Inevitably the evolution had its periods of stagnation and mutation, trekking along with all the pangs and pleasures of natural selection. To the stalwarts who helped the process of its adjustment and growth, the cotton world is grateful.

## CHAPTER VI

### ***THE EAST INDIA COTTON ASSOCIATION***

**T**HE formation of the East India Cotton Association marks the dawn of a national outlook on cotton. The first well-knit cotton trade association formed in 1875 was, as we saw, predominantly European in composition. The importance of cotton in those days lay in the fact that it was a valuable commodity for export. With the help of machine spindles, Great Britain could utilize Indian cotton better than was possible for India with her crude charkha. The charkha gave way to the spindle and the cotton textile industry migrated from India to the United Kingdom. Raw cotton had few buyers in India but was greatly coveted by Great Britain.

But if raw cotton could go to Great Britain, could not the spindle come to India? Who has ever heard of the mountain going to Mahomet? The spindle did not come to India until the 'fifties of the last century, when some enterprising Indians brought a few spindles into the country. They were not much encouraged. Such new-fangled mechanism was regarded to be foreign to our culture, history and temperament. Valiant efforts were made to save us from the pitfall, all in vain; and at the turn of the century, India had installed some five million spindles and more than 40,000 looms. In the boom following World War I, the Indian textile industry made striking progress, producing as much as 42 per cent. of the cloth used by Indians and consuming an equal percentage of the cotton crop. Once again Indian cotton found a national market. These changing circumstances were reflected in the changing composition of trade organizations. The East India Cotton Association has the distinction of being the first national cotton trade association.

The Memorandum of Association tells us that the East India Cotton Association is established "to provide and maintain suitable buildings or rooms for a Cotton Exchange in the city of Bombay and elsewhere in India; to provide forms of contract and regulate

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the making, etc., of the contracts; to adjust by arbitration or otherwise controversies between persons engaged in the cotton trade; to establish just and equitable principles in the said trade; to maintain uniformity of control of the said trade; to fix or adopt standards of classification of cotton; to acquire, preserve and disseminate useful information connected with the cotton interests; . . . . and generally, to control, promote and regulate the cotton trade in the Presidency of Bombay and elsewhere in India, to improve its stability and augment the facilities with which it may be conducted.

To establish and maintain a Clearing House....”

A section of people which was opposed to granting the exclusive privilege of controlling the cotton trade to any single association, continued to nurse a grievance even after the formation of the East India Cotton Association. The contention put forward was that the East India Cotton Association was a preserve of a few big and influential cotton merchants. The minimum unit of trading allowed by the Association's bye-laws was 100 bales or 50 candies. This was said to be prohibitive for the small trader. Besides, the very idea of doing business under rules and regulations was distasteful to certain elements which felt that the rules encroached on their freedom to trade.

In pursuance of this outlook the group decided to form a rival organization. As luck would have it, the law had left a loop-hole which permitted formation of such an organization to conduct business under rules of its own making. The Cotton Contracts Act had made all contracts entered into outside the bye-laws of the East India Cotton Association void but not illegal. The contracts were thus simply unenforceable in a Court of Law. Any two persons by mutual consent could lawfully enter into any kind of contract they chose. The only limitation, as we shall have occasion to note later, came from the Bombay Prevention of Gambling Act, 1887.

Taking advantage of this lacuna, persons who were dissatisfied with the composition and the working of the East India Cotton Association, formed in July 1925, the Shree Mahajan Association.

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They had only one Hedge Contract, Fully Good Broach, with the range of tenderable cotton narrower than that under the parallel contract of the East India Cotton Association. The minimum unit of transaction was 20 bales as against 100 bales under the rules of the East India Cotton Association. Weekly settlement was provided for but there was no Clearing House. Ill-luck, however, clogged its very first step. While the rules for giving and taking delivery of cotton were being framed, impatient members started trading in disregard of the law. According to the Bombay Prevention of Gambling Act, contracts in which tendering of the actual commodity was not contemplated, were illegal. Business under the auspices of this Association was commenced on 22nd July, 1925, and on 21st January, 1926, the police raided its premises and arrested 327 cotton merchants under the Prevention of Gambling Act. It was pleaded on their behalf that the rules were in the process of being drawn up and that their offence, if any, was merely technical. The Government decided to treat it as a test case and proceedings against all but four persons were dropped. The Court took a lenient view of the offence and, in the final appeal, only a fine of Rs. 50 was imposed. It may be noted that the offence was not that business was done outside the bye-laws of the East India Cotton Association. The business was considered illegal because it contravened the provisions of the Gambling Act. The Mahajan Association lost no time in making good the omission in their bye-laws and thereafter the legality of business done under their auspices has not been questioned.

Reverting to the East India Cotton Association, we find that in June 1925 it applied to the Government of Bombay for the extension of the duration of the Cotton Contracts Act by five years. The Bombay Chamber of Commerce and the Bombay Millowners' Association were opposed to extension by five years. The Chamber while appreciating the reforms already brought about by the Association felt that certain other improvements were essential. It suggested the following reforms:—

- (1) Weekly instead of fortnightly clearings.
- (2) Uniform rates of brokerage.

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- (3) Improvement in the system of arbitration.
- (4) Confinement of trading to the Association's "Ring."
- (5) Fixation of settlement prices on the basis of prices registered in that "Ring."
- (6) Gradual reduction in the number of Hedge Contracts and a broadening of them in such a manner that it would no longer be possible for one contract to be "rigged" against another, thus eliminating the risk of corners in a particular contract.

The grievance of the Millowners was that their repeated appeals for widening the Hedge Contracts had fallen on deaf ears. They pointed out that though the Chairman of the East India Cotton Association had agreed to adopt their scheme for reducing the number of Hedge Contracts to four and to widen them, at a General Meeting of that body "the motion was thrown out by vested interests, specially of Muccadams and Jethawalas who, without understanding the nature, scope and real meaning of Hedge Contracts, voted against the proposal."

The Government of Bombay communicated the views of the Chamber and the Millowners' Association to the East India Cotton Association for its consideration. None the less, in December 1925, the period of operation of the Cotton Contracts Act was extended by the Government by five years—up to December 1930, and the East India Cotton Association received a further lease of life.

The opposition bided its time. As the tenure of the Act was drawing to a close, a Bill was introduced in the Bombay Legislative Council in March 1930 for the repeal of the Cotton Contracts Act, on the score that "conditions which rendered the necessity of the passing of the said Act no longer existed and the trade in general now no longer required the control to be vested in the East India Cotton Association."

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The Bombay Cotton Brokers' Association were also dissatisfied with the constitution of the Board of Directors of the East India Cotton Association. Under the Act, the brokers had only three seats on a Board of 16, though 202 out of 385 members of the Association belonged to their class. They demanded the abolition of the panel system which gave them only three seats on the Board of Directors, and, failing that, the repeal of the Act itself. In June 1930 they withdrew their representatives from the Board of Directors.

In April 1930, the Government called a conference of those interested in the cotton trade. Earlier, the East India Cotton Association had agreed to the amendment of the Act on the lines approved by the various interests in the trade. But they were stoutly opposed to the abolition of a statutorily recognized Association. It was not possible to reconcile the conflict of views among the different sections of the trade and the Government decided to appoint a Committee to go into the entire question of the manner and method of regulating the cotton trade. The life of the Cotton Contracts Act was further extended up to August 1931.

On 17th June 1930, Government announced the appointment of a Committee to enquire into the working of the Cotton Contracts Act, and to make recommendations for its amendment, under the chairmanship of Sir Gilbert Wiles. The Committee's terms of reference were:—

- (1) To examine the working of the Cotton Contracts Act of 1922, with special reference to the constitution of the East India Cotton Association therein approved;
- (2) To consider whether any addition to the present activities of the Association should be embodied in the constitution;
- (3) To consider whether any of the bye-laws made by the Board and sanctioned by the Governor-in-Council had acted to the detriment of the trade or any section thereof.

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The Committee dealt exhaustively with all the vexed questions confronting the cotton trade. Some of the main issues before it were :—

- (1) Whether a single controlling authority with legislative sanction was necessary and whether it was desirable that no other association should be allowed to control dealings in cotton;
- (2) Whether any change in the constitution of the East India Cotton Association was desirable, with special reference to the panel system;
- (3) Whether a change in the prevailing system of Hedge Contracts was necessary;
- (4) Improvements in the methods of survey and settlement;
- (5) Recognition of the Teji-Mandi Option Business.

On the question of unitary control, the Committee was unanimously of the opinion that it was essential for the well-being of the cotton trade of Bombay, that forward dealings in cotton should be under the control of a single body. It found that the Cotton Contracts Act was defective inasmuch as it did not make forward contracts entered into outside the bye-laws of the East India Cotton Association illegal. It recommended that steps be taken to prevent the setting up of any rival association purporting to deal in or to control forward business, by declaring such association illegal under the Act.

The question of the composition of the Board of Directors proved more intractable, and the Committee could not make a unanimous recommendation. The majority in the Committee desired abolition of the panel system altogether. The minority, however, felt that the apprehension of a section of the trade that its voice would be swamped by the numerical superiority of the brokers required recognition and it suggested a compromise by which the rigidity of the 1922 Act would be relaxed to some extent. The Government

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of Bombay accepted the recommendation of the minority. The Committee also expressed their unanimous opinion that the Board should include representatives of cotton growers.

Since early days, there has been a keen controversy between the Millowners on the one hand, and the brokers and jobbers in the cotton trade on the other, over Hedge Contracts, the former favouring a single broad contract, and the latter a contract narrow enough to attract the buyer. The Committee decided to steer a middle course. The Contract, they held, must be broad enough to give to as many cotton cultivators as possible the advantage of the Futures market and to prevent the possibility of a corner. On the other hand, it was not possible to force on the trade something which would not function, or which would make the contract unpopular with the investor.

Commenting on the method of arbitration, the Committee observed that the system which existed encouraged surveyors to act as advocates for the party nominating them rather than as assessors. It recommended "a system of blind surveys with whole-time sworn surveyors."

On the issue of recognition of the Teji-Mandi Options, the Committee (Sir Ness Wadia dissenting) recommended that the Association should permit business in options to be conducted under its auspices and frame bye-laws providing for compulsory payment of cash premia and the regular payment of differences through the Clearing House.

In June 1931, the Government of Bombay issued a lengthy resolution accepting most of the recommendations of the Wiles Committee. On the question of the constitution of the Board of Directors, the Government accepted the recommendations of the minority of the Committee, observing that even the majority would consider them "as a substantial step towards the ideal constitution." The recommendations of the Wiles Committee and the Government resolution on them had a mixed reception at the East India Cotton

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the situation; but after consulting all sections of the trade they were satisfied that the regulation of the Bombay cotton market had been seriously defective. And they considered it necessary that, in case the disorganization of the market should continue or recur, they should be empowered to interfere and improve that regulation in such a way as to secure free trading in the market and to minimize outside interference. In normal times Government did not desire to interfere in matters of trade, except to the extent necessary to give statutory recognition to whatever organization the trade might find best suited to its needs. But the events of the past few months had made it clear that the present organization of the Bombay cotton market had been unsuited to abnormal circumstances. And the control of cotton in Bombay was not merely a matter of local concern. The ramifications of the trade extended to cotton growing districts throughout India and effects of disorganization in Bombay were quickly felt in the rural areas and up-country markets. Government therefore considered it necessary to ask the legislature to give them the special powers provided in clauses 9 and 10 of this Bill, partly in the interests of a number of *bona fide* traders and dealers in Bombay who were anxious to trade in the normal way and had been prevented from doing so, but particularly in order that the growers of cotton throughout India might obtain the best possible prices for their produce, for which purpose free and regular trading in the Bombay market was essential."

The East India Cotton Association to whom the Bill was referred by the Government for opinion passed the following resolution :—

"The Association resolves that the proposed Bill is unacceptable to them, first because there is no provision for unitary control and secondly because the Bill empowers the Government to set up a Board of Control by supersession of the elected Board. The Association is of the opinion that the solution of the trouble which is of a temporary character should be left to the trade itself. . . ."

In spite of this and other protests, Government introduced the Bill in the Bombay Legislative Council in September 1932. The

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Legislative Council was boycotted by popular representatives and Government found no difficulty in getting through all the three readings of the Bill in less than three days. Thus, after a brief and stormy life extended by several doses of Government notifications, the Cotton Contracts Act, 1922, breathed its last in November 1932, and the Bombay Cotton Contracts Act, 1932, one which was very inferior to the Bill, based on the report of the Wiles Committee, was placed on the statute book and to this day "regulates and controls" the cotton trade of Bombay. The provisions dealing with the supersession of the Board of Directors and its substitution by a Government-nominated Board of Control were, however, to remain in force only for five years. The Sword of Damocles disappeared on 1st November 1937.

One more effort was made by a member of the Legislative Council, Sardar Bhimbhai Naik, to introduce a Bill to provide for unity of control in the cotton trade of Bombay. This time the Indian Merchants' Chamber intervened with a view to bringing about a compromise between the East India Cotton Association and the Shree Mahajan Association, but the negotiations proved unfruitful and the discussion was postponed. By the time the discussion on the Bill could be resumed, the life of the Legislative Council was drawing to a close—as a result of the introduction of the 1935 Reforms—and Sardar Bhimbhai withdrew his Bill. Once again the unhealthy *status quo* received a new lease of life.

Subsequently, repeated efforts have been made to arrive at an agreed solution on this question of unity of control, but for one reason or another no agreement has so far been reached. After popular ministries took office under the new (1935) constitution, the Mahajan Association applied to Government for recognition. In January 1938, the Government convened a conference of the representatives of the two Associations to discuss whether it was possible to provide for unitary control of the cotton trade in Bombay by making suitable provisions in the bye-laws of the East India Cotton Association for a special ring for the smaller trader. The Government put forward draft proposals which, they thought, offered a fair basis of compromise between the views of the two

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is also reconstituted as recommended by the Government. In respect of survey and arbitration, full-time paid surveyors are to be appointed in place of the Survey and Appeal Committees.

#### New Class of Members

Regarding the absorption of the members of the Shree Mahajan Association in the East India Cotton Association, the Government have prescribed the following arrangements:—

- (1) The East India Cotton Association will be requested to create a class of New Special Associate Members (Temporary), which will be terminable on 31st August 1950.
- (2) Only such persons will be eligible for admission to this class as have continued to hold a membership card of the Shree Mahajan Association from a date prior to 1st May 1947.
- (3) Every member of this class will pay a deposit of Rs. 5,000 and an annual subscription of Rs. 200.
- (4) The trading rights of such member will be the same as those of a full member of the East India Cotton Association, subject to the condition that, in the event of any party asking for either a *havala* or a deposit from a member of this class in respect of any transaction, he shall forthwith give the *havala* of a full member of the East India Cotton Association or pay such deposit; and subject, further, to the number of permits admissible to a member of this class being such as may be decided by Government in consultation with the East India Cotton Association.
- (5) The voting rights of such member will be the same as those of an Associate Member of the East India Cotton Association. Associate and Special Associate Members of the East India Cotton Association (including New

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Special Associate Members) may be allowed to elect representatives to the general body up to nine per cent. of the total strength of such members (in place of the lower limits recommended by the Cabinet Committee in paragraph 14 of its Report).

- (6) The Government will, in due course, and in any case not later than 31st May 1950, review the position, and decide in consultation with the East India Cotton Association (a) whether this special class should be continued beyond 31st August 1950 and if so, for what period and on what further conditions, and (b) if it is not to be so continued, whether any facilities should be given for its absorption in one or more of the other classes of membership of the East India Cotton Association, and, if so, what facilities.

## CHAPTER VII

### ***FUTURES TRADING***

**I**N a previous chapter we made a rapid survey of the evolution of trade associations in the cotton trade. Therein we briefly reviewed the history of the birth and growth of the East India Cotton Association. A hundred years after the nebulous commencement of some sort of organized trading in cotton, the East India Cotton Association stands out as the premier institution in India's cotton world.

The Bombay Cotton Contracts Act, 1932, at present determines the legal arrangement for the regulation and control of the cotton trade. The East India Cotton Association is the "recognized" Cotton Association for the purposes of the Act. The provision for "recognition" runs as follows:

- (1) A cotton association, desirous of being recognised for the purposes of this Act, shall make an application in writing to the Governor-in-Council for such recognition and shall submit bye-laws for the regulation and control of transactions in cotton and furnish such information in regard to such recognition as the Governor-in-Council may from time to time require.
- (2) The Governor-in-Council may give or refuse such recognition.
- (3) The Governor-in-Council shall refuse recognition unless:
  - (a) it is provided in the bye-laws submitted by the cotton association under sub-section (1) that not less than one-fourth of the total number of the Board of Directors of the cotton association applying for recognition shall be growers of cotton, to be appointed in the manner prescribed in the said bye-laws and approved by the Governor-in-Council ; and

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(b) the Governor-in-Council is satisfied that the sole possession and effective management, control and regulation of the markets of the cotton association applying for recognition and of the market places of the said cotton association are vested in the said cotton association.

The Cotton Contracts Act permits, subject to the sanction of the Governor-in-Council, a recognized cotton association to make and rescind bye-laws providing for :—

- (1) the constitution of the Board of Directors;
- (2) the powers and duties of the Board of Directors and the manner in which its business shall be conducted ;
- (3) the number and the constitution of electoral panels and the representation upon such panel ; and
- (4) the method of appointment of members to the Board of Directors.

The bye-laws so made are to be placed before the legislature at the next session and are liable to be modified or rescinded by its resolution.

Four main types of membership are recognized by the Articles of Association. Qualifications and privileges attaching to different categories of members are given below :—

#### Membership

Type	Qualifications	Deposit	Annual subscription	Privileges
1 Original ..	1 Place of business in Bombay. 2 Applied before 10th May 1922.	Rs. 10,000 paid up 1st instalment of Rs. 5,000	Rs. 200	All.
2 (a) New Members.	Traded in cotton in Bombay for not less than 3 years.	Rs. 20,000 In addition entrance fee of Rs. 2,500 from 1st April 1929.	Rs. 200	All.
(b) Non-British.	Provided their respective countries give similar facilities to British Indian subjects.	Rs. 50,000	Rs. 200	All.

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Type	Qualifications	Deposit	Annual subscription	Privileges
3 Special Associate	1 Members of the Clearing House established by the Cotton Contracts Board or a broker licensed by that body. 2 Applied before 31st March 1932.	Rs. 5,000	Rs. 200	1 Entitled to trade in the "Ring" and to use Clearing House. 2 Not entitled to (a) vote, (b) to have vested interest, (c) to be present at a General Meeting, (d) or act as a Director.
4 Associate Members. (a) Original ..	1 Member of the Clearing House established by the Cotton Contracts Board or a broker licensed by that body. 2 Applied before 10th March 1932. 3 Place of business in British India.	Rs. 500	Rs. 50	1 No vested interest. 2 Not entitled to trade in their own name in the Ring. 3 Not entitled to use the Clearing House. 4 Not entitled to (a) be present at a General Meeting, (b) be a Director, or (c) vote.
(b) New ..	Place of business in British India.	Rs. 1,000	Rs. 50	
(c) Non-British.	Place of business in British India.	Rs. 5,000	Rs. 100	

The Articles of Association of the East India Cotton Association provide for a Board of Directors consisting of not more than 20 and not less than 12 persons. The Brokers' panel has a right to elect six members, and the Buyers' and the Sellers' panels, four each. The Indian Central Cotton Committee can nominate three persons from Growers' Representatives on their Committee and the Government of Bombay can nominate two growers of cotton. Article 51 permits co-option of one Director to represent the general body of

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members, and the present President, Sir Purshotamdas Thakurdas, most appropriately represents this constituency.

The Board has, subject to the sanction of the Governor-in-Council, power to make bye-laws for the regulation and control of transactions in cotton. The bye-law-making power of the Board covers a wide range of subjects. Section 6 of the Cotton Contracts Act authorizes the Board specifically to make bye-laws for :—

- (a) the admission of various classes of members of a recognized cotton association and the exclusion, suspension, expulsion and re-admission of such members ;
- (b) the opening and closing of markets in cotton and the times during which such markets shall be opened or closed, and for regulating the hours of trade ;
- (c) a clearing house for the periodical settlement of contracts or difference thereunder and for the passing on of delivery orders and for any purpose in connection with options in cotton, and the regulation and maintenance of such a clearing house ;
- (d) the number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house ;
- (e) fixing, altering or postponing settling days ;
- (f) determining and declaring the market rates for cotton of any and every description ;
- (g) the terms, conditions and incidents of contracts and the forms of such contracts as are in writing ;
- (h) regulating the making, performance and cancellation of contracts including contracts between a commission agent and his constituent, or between a broker and his constituent, or between a jethawala or muccadum and his constituent, or between a member and a non-member of a recognized cotton association, and the consequences

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of insolvency on the part of a seller or buyer or intermediary, the consequences of a breach or omission by a seller or buyer and the responsibility of commission agents, muccadums and brokers not parties to such contracts ;

- (i) the prohibition of specified classes or types of dealings in cotton by a member of a recognized cotton association ;
- (j) the settlement of claims and disputes by arbitration and appeals against awards ;
- (k) the levy and recovery of subscriptions, fees, fines, and penalties ;
- (l) disciplinary measures against members of a recognized cotton association, including suspension, expulsion, fines and non-monetary penalties, for breach of any bye-law made by the Board of Directors ;
- (m) regulating the course of business between parties to contracts in any capacity ;
- (n) the institution, maintenance and control of certified godowns and ;
- (o) regulating the making, performance and cancellation of options in cotton.

For the cotton year ending 31st August 1946, the East India Cotton Association had 258 Original Members, 178 New Members, 6 Special Associate Members, 4 Original Associate Members, 88 New Associate Members, and 2 Non-British New Associate Members. In all it had 436 Full Members, 6 Special Associate Members, and 94 Associate Members on its register. The membership, as will be remembered, is divided into panels of Buyers, Sellers and Brokers. Their respective strength during the year was 62, 111 and 263.

The Committee of the Cabinet which recently reported on this question has recommended that the present system of Directors being chosen to represent different interests should continue but that the election should be by the general body as a whole and not by

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panels thereof. In other words, the Directors should be divided into panels but not the general body. It recommended that the Board should consist of 22 Directors, with four seats each for buyers, sellers and brokers, three representatives of the growers to be nominated by the Indian Central Cotton Committee and four persons nominated by Government. Associate members are to have two seats on the Board. The Committee is of the view that there should be no limit to the admission of new members.

Many important functions of the association are performed through various Committees and Sub-Committees: the Survey-Committee, the Appeal and Super-Appeal Committee, the Clearing House Committee, and the Daily Rates Committee.

Let us briefly survey the working of the Futures trading on the Bombay market, and its ancillary functions like those of the Clearing House and the Survey System, under the East India Cotton Association.

**Forward Trading:** By a long-standing practice, forward trading in Bombay was daily carried on in two separate sessions, at two different places. The afternoon session took place at Colaba and later at Sewri from 4-30 to 6-30 p. m. The mid-day session was held at the Marwari Bazaar in a dingy little room under the control of the Bombay Cotton Brokers' Association. The afternoon session at Sewri was interrupted in 1929 by riots, and was half-heartedly revived after the tension relaxed. Separated as it was by a distance of three miles from the Marwari Bazaar, the heart of the cotton trade, Sewri was not a convenient place for Futures trading. In February 1929 the afternoon sessions at Sewri were discontinued. Only spot trading was carried on between 11 a.m. and 2 p.m.

In 1934, following the recommendation of the Wiles Committee, the East India Cotton Association took over the control and management of the cotton "ring". Forward trading now takes place between 12-30 p. m. and 5-30 p. m. on the ground floor of the magnificent six-storeyed building of the Association at the junction of Sheikh

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Memon Street and Kalbadevi Road. The foundation stone of the building was laid on 12th February 1936, the Exchange was opened on 2nd April 1938, and the Trading Hall was thrown open on 31st August 1938. The land with the old structures which had to be demolished, was purchased for Rs. 775,000. The building itself cost nearly Rs. 12 lakhs. On the ground floor a spacious trading "ring" is provided with many modern appurtenances. There are more than 100 telephone booths on the ground floor and the two galleries, and an equal number of rooms for members' offices, on other floors.

**The Hedge Contracts:** Before the war of 1939, the East India Cotton Association permitted the following five Hedge contracts :—

- (1) Fully Good M. G. Bengal Contract, fair average staple of the season, including cotton from the United Provinces, the Punjab, Sind and Rajputana.  
Basis :—M. G. Fully Good, United Provinces.  
Months of delivery :—December/January, March, May, July.
- (2) Fully Good M. G. Broach Contract, fair average staple of the season, including cotton of the following descriptions : Broach, Saw-ginned Dharwar, Punjab-American, Surat, Navsari, Rajpipla, Dholleras, Kalagin, Cutch and Kadi Viramgaum.  
Basis :—M. G. Fully Good, Broach.  
Months of delivery :—April/May, July/August.
- (3) Fine M. G. Oomra Contract, fair average staple of the season, including cotton from the Central Provinces and Berar.  
Basis :—M. G. Fine, Berar.  
Months of delivery :—December/January, March, May, July.
- (4) Fully Good M. G. Oomra Contract, fair average staple of the season, including cotton from Berar, the Central

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Provinces, Central India, Khandwa/Burhanpur, Khandesh and Kathiawar ( Muttia ).

Basis :—M. G. Fully Good, Berar.

Months of delivery :—July and September.

( 5 ) Good M.G. Southerns Contract, including cotton of the following descriptions, namely, Westerns, Northerns, (excluding " Red " ), Bijapore, Bagalkote, Compta, Miraj, Cambodias, Tinnevelli and Karungannis. The staple of Northerns, Compta, Miraj, Cambodias and Karungannis tendered to be not less than 7/8 of an inch in length. The staple of Westerns, Bijapore, Bagalkote and Tinnevelli tendered to be not less than 6/8 of an inch in length.

Basis :—M. G. Good, Westerns.

Months of delivery :—May/June, August/September.

The table below gives the number of bales annually tendered under the five Hedge contracts.

*Bales of 400 lbs.*

Year	F.G.M.G. Bengals	F.G.M.G. Broach	Fine M.G. Oomras	F.G.M.G. Oomras	Good M.G. Southerns	Total.
	Bales	Bales.	Bales.	Bales.	Bales.	
1918-19	80,600	98,800	89,200		13,400	282,000
1919-20	90,900	66,400	84,600	800	17,700	260,400
1920-21	48,400	90,100	126,300		9,100	273,900
1921-22	77,400	132,300	509,200		8,700	727,600
1922-23	26,100	101,200	411,900		4,100	543,300
1923-24	29,100	9,800	68,000		700	107,600
1924-25	16,700	23,900	8,700		200	49,500
1925-26	29,100	58,800	63,100		2,600	153,600
1926-27	25,300	29,000	167,600			221,900
1927-28	21,100	17,400	28,000			66,500
1928-29	61,300	41,400	51,000			153,900
1929-30	111,600	81,300	122,000			314,900
1930-31	34,900	71,700	63,700			170,300
1931-32	28,800	35,400	20,800			85,000
1932-33	26,200	62,600	40,100			128,900
1933-34	53,500	10,400	62,000			125,900
1934-35	77,200	69,100	56,700			203,000
1935-36	26,500	263,800	16,050			306,400
1936-37	17,000	76,700	52,450			146,500
1937-38	8,700	132,200	19,850			160,750
1938-39	5,800	60,200	6,700			74,700
1939-40	29,150	61,600	31,050			121,800

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A perusal of the number of bales tendered under each of these contracts shows that contracts 4 and 5, F. G. M. G. Oomras and Good M.G. Southerns, were, for all practical purposes, in-operative.

At an Extraordinary General Meeting of the East India Cotton Association, Ltd., held on 14th July 1942, the prevailing Hedge Contracts were replaced by the new Indian Cotton Contract. The *raison d'être* of the change was explained in an official publication as follows :

“ Broach, for over a quarter of a century, has been the principal Hedge Contract and the barometer for Indian cotton prices. When the Broach Contract was inaugurated, Indian cotton crop was in the neighbourhood of 40 lakhs of bales. Broach, then, as a cross-section of the Indian crop was fairly representative of Indian fair-staple cotton. During the intervening period, the face of the Indian crop has changed. The crop now averages nearly 60 lakhs of bales a year. Further, improved varieties have been grown and there is now a preponderance of medium and long-staple varieties, i.e., varieties with a staple length of 3/4" and over. Again, internal mill consumption of Indian cotton has advanced from nearly 18 to 20 lakhs of bales at present. Also, the mainstay of our surplus cotton which is mostly short-staple and fair-staple cotton, was principally the Far Eastern markets and the Continent of Europe. These markets, owing to the exigencies of the war, no longer exist for Indian cotton. It is, therefore, in the fitness of things that our main contract should have as its basis, cotton which caters to our domestic economy, i.e., medium staple cotton, rather than short or fair-staple cotton.”<sup>1</sup>

The basis of this new contract is Fine M.G. Jarilla cotton with a staple of 3/4". In addition to Jarilla and kindred varieties tenderable as “basic cotton,” other descriptions, viz., Broach, Punjab-American and Sind-American, Surti, Rajpipla, Dhollera, Kalagin, Upland, Coompta, Western, Bijapore, Bagalkote, Miraj, Cambodia and Karunganni are tenderable, provided they have a minimum of 3/4" staple.\* The stipulation for the staple length is introduced for

\*Subsequently there have been a few changes in this.

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the first time. The earlier contracts required only "the fair average staple of the season."

It is estimated that the total of all tenderable varieties is, in an average season, 3 million bales. This is double the quantity which was tenderable against the old Broach contract. It was feared at first that such an impressive load would unduly depress the Futures contract, but these apprehensions have not materialised. Special provisions have been devised to counteract manipulations of the contract. The Board of Directors is empowered to declare a state of "corner" or "bear raid" under certain circumstances, and on such declaration, additional measures come into operation, making the "corner" or the "bear raid," as the case may be, unattractive to the manipulators.

The shortage of wagons during the War necessitated another change. Normally all contracts are for delivery in Bombay. But in case a *bona fide* seller had cotton in the interior which he could not bring to Bombay owing to scarcity of wagons, the penalty for "default in delivery" was reduced from Rs. 25 to Rs. 7-8 per candy. The buyer, however, had the right to demand delivery up-country. Another important change was with regard to fixation of spot rates. Under the old scheme, spot rates were fixed by the Daily Rates Committee on the basis of rates for ready cotton prevailing in Bombay, but under the new contract, rates are fixed by the Survey or the Appeal Committee after giving due consideration to (1) rates in up-country, (2) rates for similar growths and (3) rates of succeeding deliveries.

The contract was an "experimental" measure, devised particularly with the purpose of meeting the exigencies created by the War. It was essentially a compromise between widely divergent views.

The Committee of the Cabinet which considered this question recently, held that as long as the quality of cotton required for domestic consumption was medium and long staple and not short staple, no radical alteration in the present contract was necessary. Some minor

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points which, according to them, needed attention in the present contract were : (i) the basis of the Hedge contract should be changed from 3/4" Jarilla to 25/32" Jarilla and (ii) the bye-laws should provide for buying on account, in the event of the seller defaulting.

A peculiar feature of the Bombay cotton market is the great popularity of the Teji-Mandi option business. These options correspond to the "call" and "put" business in some foreign markets. Teji option gives the buyer, for a consideration, a right to buy on a due date cotton at a price prevailing at the time of the contract. Mandi option gives the buyer a similar right to sell. The option given is to exercise or decline the right. In case prices go against the buyer of the option by more than the premium paid for buying it, he naturally forgoes his right to buy at the contract price. In that case his loss is limited to the premium paid for buying the option. It is a kind of stop-loss business, and, as the limit of the possible loss diminishes the business risk, it makes the contract very popular with merchants of small means. There is, however, no such limit to the possible loss that the seller ("eater," as he is called) of such a contract may incur. It is here that some prominent merchants of Bombay display remarkable genius. They are ready to offer on demand Teji or Mandi options on any price—those on prices other than the prevailing are called "Gali" transactions—at any hour, on any day. How they work out their liabilities must remain a mystery not only to the layman but also to merchants of long standing and experience. It is a known fact that in no other cotton market of the world are the premia for the option business as low as those in Bombay. Transactions worth thousands of bales are registered every day and they constitute a centre of great interest in the cotton business. It is claimed that "they help the holding and carrying of cotton to later months by bringing into the cotton trade the resources of the small traders and merchants, and this mass selling or buying acts as a brake on violent fluctuations in cotton prices. Incidentally, this large pooling of the resources of small men also helps to fetch better prices to the cotton grower."<sup>2</sup> Perhaps this is only one side of the medal. The very limitation to risk brings in a large number of gullible outsiders who, more often than not, are the poorer for the business.

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For more than half a century Bombay merchants have been trading in options. The Wiles Committee (1931) recommended that they should be brought within the control of the East India Cotton Association and should be subject to the Clearing House and other rules of the Association. About the year 1934, the Board of the East India Cotton Association, in accordance with the recommendations of the Wiles Committee, submitted to the Government of Bombay amendments in the bye-laws of the Association enabling the Board to control option business. These bye-laws were passed by the Association at an extraordinary general meeting, and the Government of Bombay consulted various commercial bodies before deciding to give their sanction to them. As some opposition was voiced from certain quarters, the President of the Indian Central Cotton Committee referred the question to the Government of India. The Secretaries of the Commerce and Finance Departments, by a demi-official letter to the Secretary, Finance Department of the Government of Bombay, recommended sanction of certain portions of the bye-laws regarding option business as passed by the East India Cotton Association, but no action has been taken on these bye-laws till now.

The Association allowed monthly and yearly Teji-Mandi contracts. In 1939, due to the emergency of the War, an Ordinance was issued banning trading in options, as it was feared that the speculative element might throw the market out of gear.

The Bombay Cabinet Committee have expressed the view that trading in options is not necessary in the interest either of the grower of cotton or the consumer of cloth and have therefore recommended its abolition.

**Blind Surveys.**—One of the important functions of a produce Exchange is to provide machinery for speedy and amicable settlement of differences between members in respect of the quality of the produce tendered. In 1937 the East India Cotton Association introduced the system of "Blind" surveys. The Board appoints a Survey Committee consisting of 25 persons, with sound knowledge of cotton, its quality, class and staple. Disputes as to quality are referred to two surveyors from amongst the panel working on that day.

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On the last working day of each week, the Secretary, by drawing lots, divides the Survey Committee into panels of 5 persons each. He also determines similarly, the days in the following week on which the members of the panel so drawn shall be available to act as Surveyors or Umpires. The result of these draws is kept secret, and members of the panel are informed an hour or so before they have to act as Surveyors. All disputes as to quality are referred to two Surveyors from amongst the panel working on that day. The names of the parties to the arbitration and the marks on the bales under dispute are not disclosed to the Surveyors. If the Surveyors differ as to their award, the matter is referred to an Umpire. An appeal against the award of the Surveyors or the Umpire lies with the Appeal Committee. This Appeal Committee is appointed by the Board and consists of 16 persons. It works in panels of 7 formed by drawing lots. The award of the Surveyors or the Umpire, where no appeal is lodged and the unanimous or majority award of the Appeal Committee, are final and binding on all parties. There is, however, a Super-Appeal Committee which is appointed by the Board and consists of three persons. Its only function is to decide appeals against the awards of the Appeal Committee as to the staple of the cotton tendered under a Hedge Contract.

On this question the Committee of the Cabinet have recommended that the Association should make more use of the machine tests at the stage of appeal. While the machine test may be optional for the Appeal Committee, it should be obligatory for the Super-Appeal Committee to order such test if it should be demanded by the appellant. The Committee was impressed with the evidence it had before it regarding the utility of machine tests in surveying cotton and urged the East India Cotton Association to depute a suitable officer to make a thorough study of the machine tests carried out in the United States of America.

**The Clearing House.**—Till the year 1918 when the Cotton Contracts Committee took over the control of the cotton trade, differences on forward business in cotton were payable only once a year,

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at the expiry of the delivery period of each contract. As large liabilities could be accumulated with impunity over such a long period, the credit structure of the trade became top-heavy and vulnerable. Sometimes, the difference between the opening rate of the Broach contract and the maximum during the season grew into several hundred rupees per candy. That no major catastrophe took place at any time, speaks well for the voluntary restraint and integrity on the part of the mercantile community.

In 1918, a Clearing House was established with a provision for the clearance of fortnightly differences in forward contracts. The table below shows the amounts handled by the Clearing House from year to year :—

*Amounts handled by the Clearing House of the East India Cotton Association during the years 1918 to 1946*

Amount	Year	Amount	Year
Rs.		Rs.	
144,057,653	1918-19	44,833,077	1932-33
107,944,433	1919-20	42,528,389	1933-34
47,210,688	1920-21	54,496,538	1934-35
129,894,566	1921-22	46,350,359	1935-36
76,937,399	1922-23	45,989,206	1936-37
91,693,270	1923-24	79,380,063	1937-38
31,859,196	1924-25	43,179,602	1938-39
35,499,096	1925-26	138,471,834	1939-40
76,670,923	1926-27	86,721,398	1940-41
94,442,459	1927-28	87,348,835	1941-42
43,099,488	1928-29	116,662,374	1942-43
44,663,180	1929-30	31,028,820	1943-44
36,080,817	1930-31	86,452,306	1944-45
48,912,122	1931-32	104,541,736	1945-46

During these 28 years, on six occasions the amounts handled exceeded Rs. 10 crores. The highest single clearing was for Rs. 19,740,000 on 29th January 1940.

Approximately nine thousand vouchers are exchanged between 200 to 225 members submitting balance sheets at each settlement.

In accordance with a notification issued by the Government of India on 27th October 1943, in pursuance of sub-section (1) of

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ment thought of price control. As far as cotton was concerned the problem at that time was one of providing a floor for the falling prices. An adjournment motion was moved in the Central Legislative Assembly on 27th October 1941 to discuss the grave situation arising out of the precarious economic condition of cotton-growers, particularly those of short-staple cotton. The Government promised sympathetic consideration. On 29th January 1942, the Government of India issued an Ordinance imposing an additional duty of one anna per pound on imported raw cotton. The proceeds were to be credited to a special fund and utilised for financing measures for the benefit of growers of short-staple cotton. Two months later, the Government of India issued a *communiqué* announcing their decision to purchase certain quantities of raw cotton. It was proposed to concentrate attention, in the first instance, on purchases in selected rural areas, preferably in the form of unginned cotton. The trade estimated the purchase of short-staple cotton by the Government at about 10,000 bales. Towards the end of the season, the East India Cotton Association replaced the prevailing Hedge Contracts with a single contract with Fine Jarilla as the basis.

During all these years of war the food situation was becoming critical. There was a great urgency for growing more food. For this purpose it was necessary to divert some of the land which was devoted to crops like cotton—especially the short-staple variety for which foreign demand had abruptly ceased—to food crops. The authorities were fully conscious of the fact that the one effective instrument for bringing about this diversion was to reduce the profitability of such cultivation. Inflation had by now got into full swing and prices were rising all round. Government realised that it was necessary for the success of the Grow More Food campaign to keep prices of raw cotton low. Owing to the falling value of the rupee, the Jarilla Contract had soared to Rs. 625. There was also a lurking desire to please the textile industry. All these indicated a check on the price of cotton, and throughout the subsequent years, this expediency, rather than equity to the producer of cotton, or, for the matter of that, to the consumer of cloth, has guided the policy of the cotton price control.

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On 17th March 1943, the Finance Member of the Government of India administered a stern warning to the cotton trade, stating that there was no justification for boosting up the prices of raw cotton as was being done, and that, if it persisted in doing so, Government would mobilise all its resources to check the advance. Accordingly a Government *communiqué* was issued on 1st April 1943, stating:

- (a) that Government contemplated taking measures intended to lead to a comprehensive scheme of cloth and yarn control designed to produce an increase in production and to ensure cloth and yarn to consumers at reasonable prices;
- (b) that it was not the intention of Government to impose a direct control on cotton in primary wholesale markets at that time;
- (c) that Government were perturbed by the wide fluctuations in cotton and that they intended to prevent violent fluctuations without delay;
- (d) that they intended to take effective steps to prevent trading in new crops;
- (e) that it was not the intention of Government to interfere with trading in spot and delivery contracts, and
- (f) that it was not the intention of Government to deny fair prices to growers and that Government expected both the trade and the public to grasp that their policy was to eliminate speculative element in the marketing of cotton at a time when it was desirable not to impede the expansion of foodstuffs production.

On 3rd April 1943, the Government of India (the Department of Commerce) addressed a letter to the East India Cotton Association intimating that, as the Government had been greatly perturbed by the wide fluctuations which had characterized the Hedge Contracts operated in Bombay and Karachi, they had decided to

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take effective steps to disallow trading in new crop Hedge Contracts and that the question of liquidating the Hedge Contracts covering the current crop was under active consideration of the Government.

The East India Cotton Association voiced their disapproval of the entire policy and the procedure proposed by Government. Government however went ahead and on 1st May 1943 issued the Cotton (Forward Contracts and Options Prohibition) Order which prohibited all persons from entering into (a) any forward contract for the sale or purchase of cotton in respect of new crops, and (b) any option in cotton, and declared that any such contract entered into after the commencement of the Order (that is, after 30th April 1943) should be void. Any person contravening the provisions of the Order was liable under the Defence of India Rules to imprisonment which might extend to three years, or to a fine, or to both. The Order came into force immediately after the notification.

The Order banned even business in Delivery Contracts relied upon by spinners for a regular supply of cotton. Subsequently, however, the Order was amended with a view to remedying this defect.

Within a few days the Government decided by an Order, dated 18th May 1943, under the Defence of India Act, to prohibit Forward Contracts even in the current crops. With the promulgation of the Order, prices of cotton collapsed sharply overnight and a state of nervousness set in on 19th May ; and though the market remained officially open, no business was transacted in the Ring.

Pursuant to their Order, Government, on 21st May 1943, fixed Rs. 565 and Rs. 568 per candy for the May and July 1943 deliveries respectively. A few days later, they announced that their acceptance of these rates in the interests of the smooth working of the final clearing did not necessarily mean that they considered them to be reasonable or fair and that in their view a fair price would be Rs. 550 in terms of the Indian Cotton Contract. They also advised mills not to pay more than the price indicated by them based on delivery ex-warehouse, Bombay, for top grades of some of the main styles.

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The East India Cotton Association was of the opinion that the rates fixed were much too low and inequitable and requested Government to reconsider them, but the latter declined to comply.

Government's policy was further explained by an official spokesman a few months later. He said that Government considered themselves bound to ensure that millowners received their requirements of cotton at the stipulated prices, and in order to secure this they would be prepared, if necessary, to requisition cotton by whomsoever held, at the maximum basic price of Rs. 550 per candy.

For nearly five months the market was closed for all Futures trading. Government gradually realised the technical difficulties experienced by cotton mills, cotton traders and especially growers of cotton, following the prohibition of Futures trading. They, therefore, decided to permit the re-opening of the cotton Futures market subject to some specific conditions. The Cotton (Forward Contracts and Options Prohibition) Order was accordingly amended and the following contracts were exempted from its operation:—

“Forward Contracts entered into by members of the East India Cotton Association Ltd., who were entitled to the use of the Clearing House, subject to the rules and bye-laws of that Association in terms of the Indian Cotton Contract (basis Khandesh Jarilla 3/4") provided that the price payable was not more than Rs. 550 and not less than Rs. 400 per candy, Bombay delivery.”

It was further provided that every member should, on each clearing day commencing from 12th November 1943, deposit with the said Association a sum (not carrying interest) which should not be less than Rs. 25 per bale on the net open Futures position of each such member, regardless of the price of such contracts.

In a letter addressed to the Association, the Government enumerated the conditions under which permission would be given for the re-opening of the Futures trading:—

- (1) That trading in options shall continue to be prohibited and shall remain a penal offence.

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- (2) That forward trading shall be subject to the maximum and minimum prices indicated in the notification.
- (3) That every member entitled to the use of the Clearing House shall deposit with the Association which shall in its turn deposit with the Imperial Bank of India, a sum (not carrying interest) which shall not be less than Rs. 25 per bale on the net open Futures position of each such member, regardless of the price level.
- (4) That the Association shall undertake to enforce rigidly its various disciplinary bye-laws, e.g., any infringement of the limitation of trading hours shall be dealt with immediately by expulsion, etc.
- (5) That the Association must take power to call upon any of its members at any time to declare his open position and the accounts on which it is held. If the Association is unwilling to take such power and exercise it as and when necessary, Government will themselves exercise this power.
- 6 That when cotton prices are at the ceiling rates, Government shall retain the right of requisitioning cotton for the use of mills at prices, say, 3 to 5 per cent. below the ceiling rates.

On 18th November 1943, the Government of India issued a press note announcing the means by which they intended to maintain the price of Indian cotton between the floor of Rs. 400 and the ceiling of Rs. 550 per candy in terms of the Indian Cotton Contract. Their plan was to buy the new crop of the 1943-44 season by whomsoever offered in Bombay, Karachi, or up-country at floor prices or their up-country equivalent. It was further stated that they would not buy any cotton unless the Indian Cotton Contract in the market of the East India Cotton Association in Bombay was quoted at the floor price of Rs. 400 per candy. They would then buy basic Jarilla Khandesh 3/4" staple at the floor price of Rs. 400 per candy and other styles at floor prices or at the market rate for specified varieties, whichever was lower.

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Prices went on declining and the Government of India brought their purchase plan into operation on 5th April 1944, as an *ad hoc* arrangement, even though the price of the Indian Cotton Contract in the Bombay Market had not touched the floor level. They gave orders for the purchase of Broach cotton up-country at the market rate but not above Rs. 405 per candy, f.o.r. Bombay, in order to relieve the distress there. These purchases were made through certain purchasing agents appointed by them.

On 21st April 1944, the Indian Cotton Contract touched Rs. 420 for May delivery, a level at which, the Government had said it would be within their discretion to buy cotton.

The Government of India commenced purchases of Jarilla cotton 3/4" staple in Bombay and up-country at Rs. 410 per candy on 26th April 1944 when the Indian Cotton Contract May delivery ruled at Rs. 418 per candy. They also purchased American seed styles in Karachi, Sind and the Punjab and Hubli-Jaywant in the Compta districts. As Government purchases were restricted to certain varieties, the prices of others declined sharply. It was pointed out that such a policy was not in keeping with the spirit of the assurance given to the trade in preceding October, and a request was made to Government to purchase other varieties also at the prevailing rates. Government replied that in those days of an acute transport problem they must direct their cotton buying operations as far as possible to avoid buying cotton for which railway wagons and/or shipping space would be required.

The Indian Cotton Contract July delivery having touched Rs. 400 on 20th June 1944, Government's main buying plan was put into operation on the same day, and Government commenced purchases of all varieties of Indian cotton tenderable against the contract at specified rates.

These buying operations continued up to 25th July 1944, when the July contract matured. However, on 7th August 1944, Government's buying operations were commenced once again in respect of

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Fine Jarilla 3/4" staple at Rs. 400 per candy, when the Indian Cotton Contract, September delivery, ruled at Rs. 408 per candy. On the Indian Cotton Contract being grounded at Rs. 400 on 28th August 1944, Government's main buying plans again came into operation in respect of all varieties of cotton tenderable against the contract and purchases continued up to the 25th September, after which date Government's buying plans for the season 1943-44 came to an end. The total purchases by Government in Bombay and up-country till 31st August 1944, as reported by the Textile Commissioner, totalled 220,000 bales.

#### The Karachi Cotton Association

Mention must be made of a sister institution at Karachi. The Karachi Cotton Association was established in 1933. Prior to that, the cotton trade was regulated by the Karachi Chamber of Commerce and the Karachi Indian Merchants' Association. In 1927 an *ad hoc* organization called the Karachi Joint Cotton Committee was set up and it introduced a uniform contract for forward dealings. The main objects of the Association are: unified control of Karachi cotton trade, creating and maintaining facilities for its needs and its orderly development, and bringing about standardization to create a modern cotton market. It also set up a Clearing House. The management and control of the Association vests in a Board of Directors consisting of 17 members (eight of whom are buyers/exporters) elected every year by the general body of members. The Board is assisted by Standing Committees (nominated by the Board): Appeal Committee, Special Appeal Committee, Standards Committee, Clearing House Committee, Bye-laws Committee, Standing Finance Committee and Rates Committee.

During the past decades, the vast irrigation schemes have enabled the Punjab and Sind, the principal cotton areas served by Karachi, to increase rapidly their cultivation of cotton. Between the two world wars the area under cotton has more than doubled and has now crossed the 3-million acre mark. What is more significant is that the percentage of production of the Punjab-American varieties has

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increased from 35 in 1921-22 to 51 in 1938-39, thanks to scientific cultivation and a large increase in the yield per acre.

Cotton arrivals into Karachi have averaged annually 1,500,000 bales, most of which are for export. Ready business in Karachi approximates annually 800,000 to 1,000,000 bales.

### Karachi has three Hedge contracts:—

<i>Contract</i>	<i>Basis</i>	<i>Months of delivery</i>
1 Superfine M.G. Sind (covering Sind Deshi cotton).	Superfine M.G. Sind	November, December, January, March, May, July.
2 Fine M.G. Punjab (covering Deshi cotton grown in the Punjab, U.P. and Rajputana).	Fine M.G. Punjab.	December, January, March, May, July.
3 Fine M.G. 4 F. (Covering staple varieties grown in Sind and the Punjab).	Fine M.G. 4 F. (Punjab), Staple not less than $\frac{3}{4}$ ".	January, March, May, July.

## CHAPTER VIII

### THE GATEWAY OF COTTON

IT was not before a century had rolled by that the obscure island of Mombai became the "Gateway" of India. Much conscious labour has gone into the task of raising the city to the position of the Capital of Western India. Yet, if foreign trade were the dominating motive in the conquest of India, it was but inevitable that Bombay should be chosen as the Gateway. Take, for example, export of raw cotton, which as we have seen, was a desperate necessity of British economy. The two other important cotton-growing districts of the time were Gujarat and Berar. For the purposes of these tracts, Mombai was a centrally situated port. Besides, Mombai had an excellent natural harbour. Once again, as the narrative below shows, cotton played no insignificant part in the growth and prosperity of the island.

The earliest cotton market was held at the Cotton Green, situated at what we to-day know as the Elphinstone Circle. It would certainly require a bold imagination to efface from sight the present chain of ponderous buildings encircling the small garden, and create in its stead a vision of by-gone days, of a cotton market "covered with bales of cotton . . . . entirely unprotected" and "an eyesore with all sorts of cotton seed, cotton leaves, old rope and other '*cutchra*'." "The original Cotton Green of Bombay was known as the Bombay Green and occupied the area between the old Secretariat on the south, the entrance to Bazaar Gate Street on the north, the Town Hall on the east and the Cathedral and Church Gate Street on the west." Some two hundred years ago it was "a smiling spot with a beautiful garden pleasantly laid out and encircled by health-giving and smiling trees," the most noteworthy of which was a tamarind. But the Green had to make way for commerce. Cotton was more precious, at any rate to the early British, than the palmgrove. The late Sir Dinshah Wacha, who has preserved for us many precious "shells from the sands of

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Bombay" bemoans this commercialization which, "as early as the opening of the nineteenth century destroyed its beauty, just as that of Byculla, by the industrialism which has so ruthlessly invaded it since 1880. The trade in cotton just a century ago was being built up and as the cotton warehouses were very near, next to the opium godowns . . . the dealers who had had to press the dokras for shipment to Europe dumped the Green despoiling its beauty and in the bargain making it an eyesore." In May 1862, the Municipal Commissioner complained to the Commissioner of Police about "the great and often insurmountable obstructions to traffic caused by deposits of bales of cotton in certain streets of the Fort, especially the Marine Street, where more than one half of the breadth of the road was taken up by the huge stacks of cotton bales, leaving barely space for two carriages to pass each other." (The *Times of India*, 29th May 1869.) Up to 1823, merchants were allowed to stack cotton on the Green. From here the Cotton Green was shifted about the year 1844 to Colaba. It occupied an area on either side of the Colaba Causeway of about  $1\frac{1}{2}$  square miles. Dealers in cotton rented plots commensurate with their business. These plots were their *Jaithas*.

Maclean in his *Guide to Bombay* describes the market in the following words:—

"The Cotton Exchange is the general meeting place between buyers and sellers, business beginning soon after mid-day. The European merchant through his dalal or broker, arranges the price and terms of purchase—a matter which, owing to the native love of bargaining, is a much more lengthy proceeding than it would be in England—after which he proceeds to the *Jaithas* where the bulk of the cotton lies in the packages as received from up-country and selects it bale by bale, stamping with a private mark whatever comes up to the standard bought, and rejecting anything inferior. The cotton is then weighed and sent to the press house, where the loose country packages are opened out and the contents packed by extremely powerful pressure into bales about 10 c.ft. containing  $3\frac{1}{2}$  cwt. net of cotton. The same quantity of cotton, spread out

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loose would occupy a space of 150 cubic feet; when stamped by men in docras (country packages) a space of 83 cubic feet; and when 'half' pressed, a space about 50 cubic feet. Upwards of a million and a quarter of fully pressed bales are exported annually, and formerly the entire quantity came originally to Bombay in an unpressed state. Of late years, however, a large proportion of the crop has been brought and pressed ready for shipment by European agency up-country without the intervention of the native dealer, so that for two-thirds of the entire export Bombay has now become a shipping port. The cotton season opens with the beginning of the native business year at the Divalee, in the month of November, when the dealers bring out to their *jaithas* the remainder of the previous crop which has been kept in store over the rains; and from that time until the monsoon again broke, about the beginning of June, the place forms a striking picture of active busy life, rendered peculiarly bright and attractive by the singular and varied costumes of the people. Dresses of every colour and make are represented, from the plain 'Solah Topee' and white drill suit of the European merchant to the gold-embroidered shawl of the up-country shroff or native banker. The busiest time of the year is the months of March, April and May, and that is of course the best time to see the Green, but it will repay a visit during market hours at any time during the open season. Until within the past few years, the general hours of attendance were from half-past six to nine in the evening; but since the opening of the direct telegraphic communication with England the hours have been made later to allow of the receipt of the previous evening's Liverpool and New York telegrams; and between twelve noon and five in the afternoon are now the working hours."

In the *Times of India* of 13th May 1870, we come across the following passage:—

"Government have made at Colaba a cotton yard for all the cotton brought by the B.B. & C.I. Railway. The cotton is discharged from wagons at the railway siding and is then carried in bullock-carts. Government or the Railway Company, however,

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neglected to make a puca road on the ground near the yard; and the consequence is that the poor animals (bullocks) are driven almost to death in the deep soft sands before they reach the main public road. The interest of commerce likewise suffers owing to the loss of time in the cartage of cotton. A good road from the public road to the cotton yard is necessary."

Once again, the selection of Colaba for Bombay's Cotton Green emphasises the importance of raw cotton mainly as an article of foreign trade. Bombay's cotton industry was then in an embryonic state, and when it was established, it chose a site which was at the other—northern—end of the city. In the 'forties, if cotton came to Bombay, it was mainly for the purpose of export. Colaba with its big open space and proximity to the harbour of those days was best suited as a cotton market. There were no railways hitherto and cotton came by sea from Gujarat and Central India from the ports of Dhollera, Broach and Surat and from South Deccan and Malabar from the port of Kumpta. When in the latter half of the nineteenth century, there sprang up a considerable demand for cotton from local mills, cotton had to be hauled by bullock-carts from one end of the city to the other, a distance of nearly six miles.

We may permit ourselves one more glimpse of the Colaba Green before we shift our attention to the new cotton market on the Mazagon-Sewri Reclamation. Aubrey who wrote some entertaining letters from Bombay, gives a colourful picture of "long rows of wharves where endless bales of cotton await early shipment." He described the locality as "picturesque with its brightly clad and toiling women, yellow-capped police mounting guard at the gates, the tinkling sound of the bullock bells. On the summit of the low walls, cross-legged like monkeys, coolies quietly chew betel and *pan*; their giddy, naked progeny playing about; their wives quietly resting in the distance with laughing urchins on the knee. Very amusing is it to see several tiny rascals now engaged at the hide-and-seek behind a huge pile of newly landed coal, and dodging in and out of the acres covered by cotton goods.

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“The Green where cotton is daily bought and sold is perfectly deserted and silent. Early here in the morning the busy agents weigh the loose bales, and much chaffer takes place, for the Hindoo delights to protract a bargain to a preposterous length. The gesticulating throng of merchants who so love to squat in chattering groups in the circle of their own shadows have all long since cleared away, leaving behind them little balls of fluffy down sailing on the light breeze. The shadows of tropical night are fast obscuring the outlines of the populous warehouses.

“At about three the Cotton Exchange near the Cathedral becomes densely crowded. Here in the centre of public thoroughfare, brokers and merchants transact their affairs for they have steadily refused all offer of any shelter to keep off the heat. Wealthy Bania merchants and Parsee brokers slip from their own carriages into each other's vehicles, sit for a while in the conveyance till the bargain is struck or refused. The poorer trader discusses his business under a coloured umbrella, chattering over files of sordid papers and sordid books, to squeeze out a pice or to secure an up-country order. English merchants also drive down in the shigram or brougham, and their agility in leaping from one vehicle into another favourably contrasts with the sloth and awkwardness of the native when exchanging carriages. Difficult is it for the occidental to counteract the cunning of the native brokers who play into each other's hands to baffle the European and to commit every deed of craftiness that can be practised within and without the pale of the law. The degree of calmness they preserve throughout their bargains defeats all the arts that can be opposed to it.”

From the vignette of coolies chewing betel and *pan* to the cunning and craftiness of the native broker is a rather quick journey and we may ignore the tourist's opinion of an unfamiliar land. Yet we are grateful to Mr. Aubrey for having left behind a rare glimpse of our cotton market 65 years ago.

As far back as 1894, it was recognized that the situation of the cotton market had become obsolete, causing an unnecessary increase in transport cost.

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By now railways (the B. B. & C. I. R. and the G. I. P. R.) had linked up Bombay to Gujarat on one side and Khandesh and Berar on the other. Raw cotton now came to Bombay by rail. The B.B. & C.I. and the G.I.P. Railways had their goods depots at Colaba and Wadi Bunder respectively.

As Sheppard points out in his *Book of Bombay*, "the construction of railways, only one of which ran to Colaba, the building of docks at a distance from the Cotton Green, and the multiplication of mills in the centre and north of the island, meant that cotton often had to be carted into Colaba and almost invariably to be carted away, with an increase of expense and serious congestion of traffic caused by the long files of bullock-carts cutting across the town."

A proposal was mooted in 1899 for reclaiming from the sea a large piece of land between Sewri and Mazagon and for transferring the cotton market there. In a letter to the Government of Bombay, dated 17th October 1899, the Chairman of the Bombay Port Trust made out an eloquent case for the transfer of the Cotton Green from Colaba to Sewri. We make no apology for quoting the letter *in extenso*, as it makes out as good a case for transfer as it was possible to do.

"The present Cotton Green has little to recommend it beyond the fact that it has been for years the headquarters of the trade. It is remote from the docks where a large portion of the imports by steamers from coast ports are landed, and to which roughly speaking, half of the crop is ultimately sent for shipment. It is also remote from the local mills to which the other half is sent for consumption. The distance from both necessarily involves a large cost in transport which, looking to the great bulk of the trade, must amount to a considerable sum every year. There is also a public inconvenience from the Cotton Green being situated where it is, as the passage of train loads of cotton along the western side of the city multiplies the trouble at the level crossings, while a large

cart traffic traverses the whole length of the port and other busy parts, and seriously impedes traffic.

" The space moreover, is not contained in a compact block, or designed on any plan adapted to the requirements of the trade, but is made up of a variety of plots with which the warehouses lie scattered over a distance of nearly three-fourths of a mile, one here, another there, and some of the latter in narrow streets. The conditions all suggest the necessity of improvement, and the only apparent convenience is the proximity of the ~~more~~ important part of the Green such as the Cotton Exchange to the offices of the merchants in the Fort, an advantage, which the Trustees consider can weigh but little against many disadvantages of the situation.

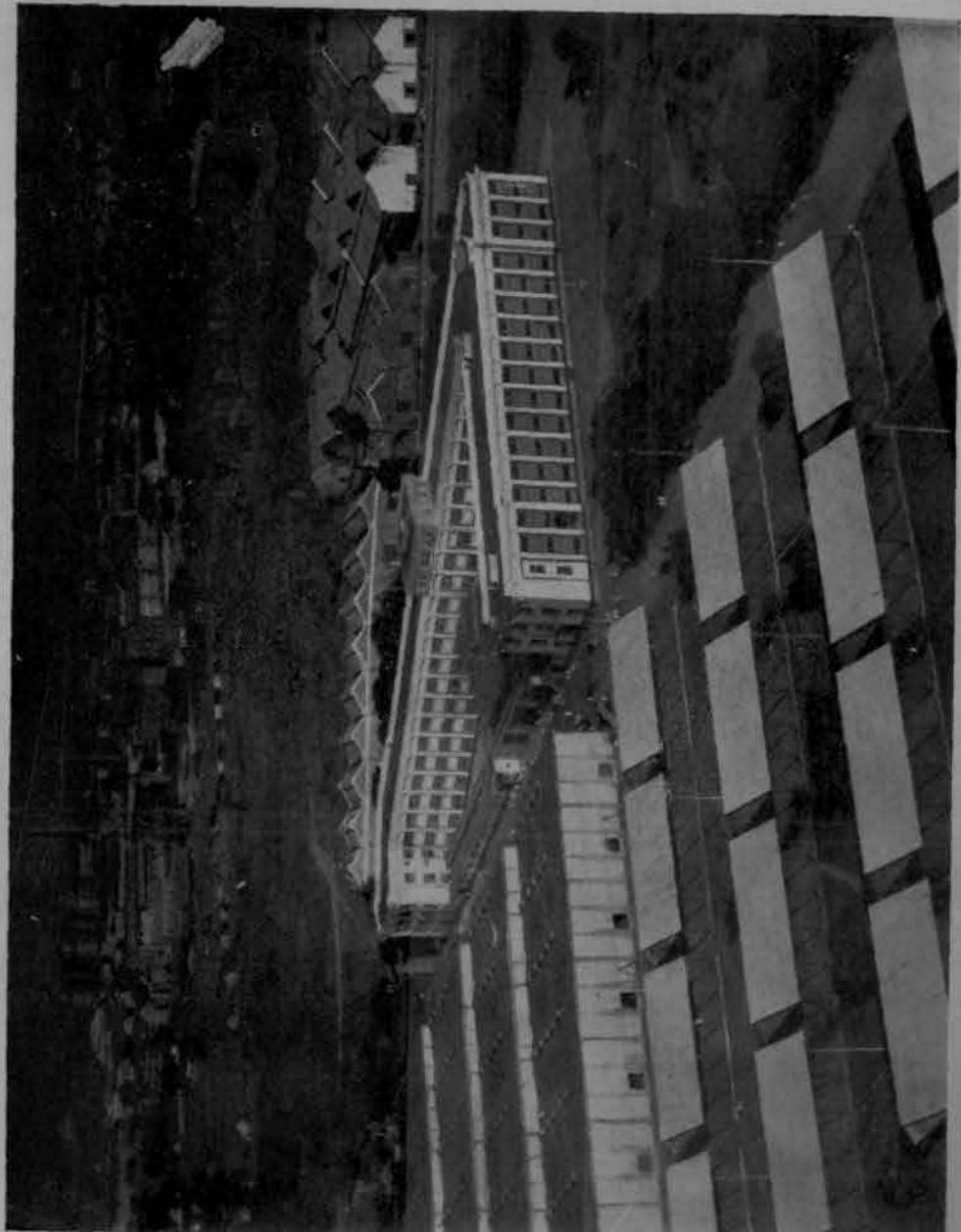
#### **Advantages of the Depot at Mazagon**

(i) It will be connected by the railway with docks which will allow all consignments being more expeditiously transported to the docks than is possible from the present Green where the only means of transport available are sailing boats and bullock carts.

(ii) The cost of transport in such cases will be less, and on a rough estimate, the saving in respect of exports may be taken at about a lakh of rupees per annum, at the least, on a normal trade.

(iii) The storage area being more compact and accessible everywhere to siding, the labour and cartage charges would be greatly reduced. And it will be probably feasible to charge a considerably reduced rate for storage in the open as compared with that now charged at Colaba.

(iv) The site is much more convenient to the local mills which consume half the crop . . . . There are only three mills at Colaba near the present Green, whereas the remaining seventy-seven mills lie close to the proposed site, or to put it in another way, seventy to seventy-five of these mills are situated at a distance of four to seven miles from the existing Cotton Green, while they are close to, and many lie within one mile of the new site. Seeing



*Cotton Green Building and Cotton Depot, Sewri, Bombay*



*Cotton Exchange, Marwari Bazaar, Kalbadevi, Bombay*

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that about 120,000 carts are required to transport the cotton from the Green to the mills, and that the distance is so much less, the charges must result in a large saving under this head also, supposing the saving to be annas four per cart, it would amount to Rs. 30,000 a year.

(v) The warehouses at Colaba are said by the Chamber to be greatly scattered which causes inconvenience, especially in the rains. Those to be erected on the new site will be together and close to the open ground used for storage in the fair season and will, in construction and fire appliances, comply with the requirements of the insurance offices so as to entitle the occupiers to the most favourable rates. A further and considerable economy may be anticipated in this respect as the rates at Colaba vary from annas six to ten annas per cent., whereas at the dock warehouses the rate for the same risk, i.e., full pressed bales, is only 2 annas per cent. and the rents will certainly be no more than those charged at Colaba which, it may be observed, are as high as are charged for substantial warehouses like the Ryan Grain Market on the Elphinstone Estate.

(vi) There will be a wharf adjacent to the site where the imports of country craft may be unloaded.

(vii) And the cotton landed at the docks from steamers may readily be railed up at less cost than the present cost of carting to Colaba."

But it was not before 1923 that the cotton market was finally shifted from Colaba to Sewri. On 3rd July 1923, a meeting of all persons connected with the cotton trade of Bombay was held under the chairmanship of Sir Purshotamdas Thakurdas for discussing the problems involved in the transfer of the cotton market. In his address, Sir Purshotamdas said, "the shifting of the Cotton Green from Colaba to Tank Bunder was practically decided upon years back on various grounds. The principal one, however, was the location of the cotton trade nearer the docks and the mill area than at present. Bombay is a centre for consumption of roughly one-third of the total cotton it receives and for distribution by

## A HUNDRED YEARS OF INDIAN COTTON

export of two-thirds of its annual import. *Prima facie*, therefore, it may be conceded that the location of the cotton godowns nearer the docks and the mill area, and in addition, nearer to up-country markets even by two miles, is a reasonable proposition."

Accordingly, in 1923, the cotton market was shifted to Sewri (Tank Bunder—Mazagon), not far from the mill area in the north of Bombay. The formal opening ceremony of the completed Depot was performed on 1st December 1925. There the cotton trade has occupied 127 acres of reclaimed land, on which are erected warehouses, *jaithas*, business quarters, and a Trading Hall.

There are 178 warehouses, arranged in 17 groups of ten, and one of eight. The groups are separated by roads or "avenues" wide enough for loading and unloading. Each warehouse has a floor-space of 111 ft. by 43 ft., and a height of 30 ft. The total storage capacity of all the warehouses is over three-fourths of a million bales.

Along the side of the several warehouse-groups there are *jaithas*, i.e., spaces with raised plinths, 225 in number, where a quarter million bales can be piled up during the dry season.

At one end of the Depot, and separated from the warehouses by a wide road, stands the "Cotton Exchange"—the business quarter of the trade. It is an imposing three-storeyed building, having a frontage of 1,800 ft. on the north and 650 ft. on the east. It was built at a cost of over Rs. 1,800,000 and contains 120 Buyers' rooms and 80 Sellers' rooms, most of which are occupied. On the third storey are the Arbitration and Appeal rooms, capable of handling 300/350 surveys and appeals per hour. There is a library for the use of the members of the trade, and accommodation for keeping records.

The Railway Station appropriately named "Cotton Green" is built close by the Depot by the G.I.P. Railway. A special Sub-Post and Telegraph Office is located in the "Exchange" itself.

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Within the angle made by the two frontages, stands the Trading Hall—the “Ring,” which, however, as has already been mentioned in an earlier passage, is no longer in use.

Let us have a look at the actual handling of cotton bales. To-day the bulk of this work is performed by labourers coming from the Deccan. Here, too, there has been an evolution. The early Cutchi traders who came to the city handled their own bales. It is on record that the forefathers of some of the leading cotton merchants of to-day, themselves did all the manual work involved in the trade. The successive generations became progressively more refined, and all that they need handle to-day is the telephone. But the Deccani Maratha had no such ambition. “The *Ghati* has no ambition but to work. Wherever he is employed he is always useful and his labour is fully worth the wage he receives. . . . His best qualities are seen in the great godowns of the city. He manages heavy loads of bales . . . with the intelligence and skill of one to the manner born, and his physical powers of endurance during the hottest weather have often excited the wonder and admiration of the employers,” says the *Gazetteer* of Bombay City and Island.

Between 1,000 and 1,500 labourers are employed at the Sewri Cotton Depot, the higher number being employed during the busy season from December to May. Requirements vary from time to time, with the result that the number of permanent and casual labour is almost equal. In addition to the hamals, there are some 750 clerical men working for the Spot Traders at Sewri, besides some 500 men, whose work is to mark the bales and take out samples. The clerical work arising out of the Futures Trade at the Exchange Building in Marwari Bazar is done by nearly 2,000 men.

The Bombay Cotton Merchants and Muccadams’ Association maintains a charitable dispensary for the benefit of labourers and others employed on the Cotton Green. The Bombay Presidency Infant Welfare Society runs a centre at the Depot, towards which the trade donates Rs. 3,000 annually. Three Trust Funds, namely, the Cotton Servants’ Relief Fund (amounting to about Rs. 25,000),

#### A HUNDRED YEARS OF INDIAN COTTON

the Maneckjee Merwanjee Nanpuria Trust Fund (amounting to about Rs. 25,000), and the Seth Shivnarayan Nemani Charitable Trust Fund (amounting to Rs. 1,01,000) provide financial help to the needy employees in the cotton trade. A night school for labourers is conducted under the auspices of the East India Cotton Association at Sewri. There is also a library and reading room, managed by the Committee of Management of the Cotton Servants' Relief Fund.

An important step for the benefit of the workers was taken in 1938 by the East India Cotton Association in appointing a permanent Labour Officer for attending to all labour questions. The Association prescribed rules for the administration of labour, appointed a Labour Supervision Committee, and fixed minimum rates and wages for various kinds of labour. No labour contractor is allowed to work in the Cotton Depot unless he has a licence and has deposited with the Association a sum equal to the average monthly wages payable by him to his employees, as a safeguard against his failure to pay them.

Hours of work are regulated and provision is made for attendance for overtime work. Liability under the Workmen's Compensation Act is imposed on the principal employers and in addition to compensation, permanent workers are given wages for the first seven days after they have had an accident, although there is no such liability prescribed under the Act. Child labour is prohibited. In deserving cases, old workers who have no means of livelihood are provided with a small pension from the funds of the Cotton Dealers' Association; and workers who might be in distress owing to unemployment or prolonged illness, are given help from the Cotton Servants' Relief Fund. The Co-operative Society (started in 1939) lends money at a moderate rate of interest. Facilities are granted to workers for the celebration of religious festivals in the Trading Hall. In 1940 a temple was built near the Exchange Building by the well-known Nemani firm in memory of the late Seth Shivnarayan Nemani.

#### THE GATEWAY OF COTTON

The beneficial results of the labour administration have been appreciated both by labourers and merchants. There are three trade unions among the workers; one, of labourers and workers at Sewri, known as the Cotton Kamgar Sangh; another, known as the Ready Cotton Staff and Workers' Association mostly consisting of the clerical staff; and the third, known as the Cotton Brokers' Staff Union, consisting of the clerical staff of the brokers at Kalbadevi. The last union is comparatively more active; it runs a dispensary and a library for the benefit of its members. The East India Cotton Association has provided it with rooms for a library and a dispensary, free of charge.

## CHAPTER IX

### *LOOKING AHEAD*

**B**Y now we have surveyed, rather hurriedly, a hundred years' evolution of the cotton trade. At the very outset we made a claim that raw cotton has conditioned many aspects of India's economic development. There is nothing presumptuous in this. Trade was the dominant *raison d'être* of British rule in India. Synchronising as it did with the mechanical inventions in the cotton textile industry, it made raw cotton the base for its economic operations. The changing pattern of India's economy, therefore, revealed itself through cotton and the cotton trade. If purity in marketing was insisted upon, and marketing legislation was passed, it was because the Lancashire cotton industry was in need of clean, unadulterated cotton which could replace cotton from America. If trade associations were formed, they were formed by European merchants with a view to acquiring a better hold over the cotton trade. If a quicker and cheaper transport was instituted, it was because "immense quantities of cotton did not go to Bombay which were or might be produced for the British in the interior." We have to thank King Cotton for having drawn us into the new world economy, the economy of international trade, world prices and foreign exchange. All these hundred years, cotton has maintained its reputation for having the most efficient economic institutions built around it. There is no other commodity in India whose marketing is performed as economically as that of cotton. It has a well developed produce Exchange and a trading technique which can more than hold its own in international comparisons.

We, however, live in a dynamic world in which there is no finality about economic processes and technique. During these hundred years raw cotton has faced many revolutionary changes. The American Civil War opened for it new horizons which, however, soon disappeared. The establishment, within the country, of a textile indus-

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equate losses, in the event of a continuous and/or precipitous fall in prices. The experience of the Federal Farm Board of the United Kingdom must act as a check on our expectations.

The British experiment is certainly very consistent with the socialist ideology of the Labour Government, though the *modus operandi* must yet remain a matter of trial and error. With the scheme of Government purchases in full operation, prices will have none of the significance they have to-day. They will not represent an automatic equilibrium between demand and supply at a given time. The process of price-making will be replaced by a process of accounting, in the formation of which even non-economic factors might enter. During the War, the Cotton Control based its prices for different types of cotton not directly on the cost of each type but in a manner designed to secure that the prices charged reflected the proper relationship between the types, having regard to the spinning qualities of each, so long as the total amount received for all cotton sold was sufficient to meet the total cost of purchasing it.

In the highly artificial market of the war period centralised purchases by Government did provide cotton to spinners at fairly low and stable prices. The main role of the Exchange—which Government propose to take over—however, is not so much to supply cotton to the spinner as cheaply as possible, as to assure the supply at a future date at known prices. Forward sales of cloth require that fluctuations in the price of raw cotton will not upset the estimated cost of producing cloth at the scheduled time. Exchanges by providing a system of hedging free the spinner from the worries of fluctuating prices. Any alternative system must provide this much-needed protection to spinners—unless, of course, cloth prices too are controlled. The British Cotton Control first introduced a system whereby it gave a forward undertaking to sell to spinners cotton at current prices, the quantity being limited to requirements of 16 weeks. Later, anxious not to be burdened with stocks, it encouraged the spinners to buy and store supplies of cotton in excess of quantities required to meet their current needs, with a proviso to reimburse or surcharge the

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#### A HUNDRED YEARS OF INDIAN COTTON

years consumed 60% of her own crop and exported the remaining. But she had also to import 7 to 8 lakh bales annually. Straddle trading linked up these markets and kept the prices more or less in step. Is this international price mechanism operating through Cotton Exchanges an absolute necessity? Does the system ensure efficiency and equity to all interested in the economics of raw cotton? Can we replace it without introducing arbitrariness in cotton economy?—though the fact that the system is self-adjusting does not mean that it follows any socially equitable pattern. It should be admitted that the self-adjusting system of free market mechanism due to the unequal strength of different interests influencing the price-making factors often results in injustice to some of them. On the other hand, a managed economy informed by a social purpose may make for better justice and equity; though there is a danger that it may substitute the political vote for the dollar vote, with no better result.

Whatever may be the answers to the above queries, one side of this Cotton triangle—New York, Liverpool, Bombay—is being obliterated. The Labour Government of the United Kingdom has decided to close the Liverpool Cotton Exchange. The Exchange was closed in 1941 as a war-time measure and importation of raw cotton was entrusted to the Cotton Control. It has now been decided to continue the scheme of central purchase of cotton and do away with the marketing mechanism of the Exchange. The British Government is satisfied that the system of centralised purchase which had been operating successfully during the war, can, in the future, enable supplies of cotton needed by Great Britain to be obtained at least as economically as by private importation and with greater certainty and regularity. It may be pointed out that the success of Government buying during a period of rising prices is no indication of the soundness of the system. We are told that the Cotton Buying Commission would reap a profit of £ 25 million in the year ending 31st March 1946. Though it is proposed to leave this profit with the Commission as a kind of nest-egg to face the writing down of its stock which may become necessary when prices fall, it is doubtful whether such reserves will be sufficient to

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try during the latter half of the nineteenth century, once again made it an introvert. Then by the year 1896 cotton turned Eastward and Japan became the best foreign buyer, relegating the United Kingdom to the background. The growing consumption of cotton in the home market led to the establishment of the Indian Central Cotton Committee, which has from the outset made strenuous efforts to improve the spinning quality of Indian cotton. The Second World War has proved to be more momentous than the first as far as the fortunes of raw cotton are concerned. In the plan for "Grow More Food," cultivation of cotton came in for severe curtailment. For the 1945-46 season, the area under cotton was reported to be 14.5 million acres, i.e., 7 million acres less than the pre-War figure. There has been also a great qualitative change in the composition of India's cotton crop. The percentage of cotton with staple below 7/8" has declined to 34 from 71 in 1922-27. During 1945-46, we grew no more than 1.2 million bales of short-staple cotton against more than 4 million grown in 1922-27.

Food shortage is likely to persist for many years, and with it the need for a larger acreage under food crops. It is possible, therefore, that we may not be able to revert to the pre-war acreage of short-staple cotton. If the policy of a drastic curtailment in the acreage under short-staple cotton becomes a permanent feature of our crop planning, it will have a revolutionary influence on the marketing and trade of raw cotton, which might once again cease to be a commodity for export. Our anxiety over the fate of orphan cotton has influenced our trade policy on more than one occasion. If side by side India begins to grow sufficient long-staple cotton for her textile industry, cotton may also cease to be an article of import. That will make our raw cotton economy self-sufficient. This, in its turn, will have a profound influence on the marketing technique and the raw cotton trade.

If, as a result of crop planning, raw cotton economy becomes self-sufficient, i.e., depending neither on exports nor on imports, it may be relieved of the dominating influence of foreign markets. That, however, does not mean that it will be completely free to develop

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its own dynamics, independently of, or, if necessary, contrary to, the fate of raw cotton elsewhere in the world. At best it will give the planning authority in India a firmer grip on the raw cotton economy, and policies of price stabilization may become slightly easier to implement. For, if we have to depend upon an export market, our prices must move in parity with world prices. Export subsidies of the type provided by the American Government are beyond the financial means of a country like India. The matter will not be so simple on the import side. India may grow all the cotton that her textile industry may need. But that is not enough. She must grow this cotton at a cost which will enable her to supply it to the industry at a price that will compete favourably with the price at which foreign cotton of comparable variety may be available. Physical self-sufficiency does not give us economic impregnability. We can, of course, ban the imports, but that is a step, the consequences of which it is beyond the scope of this book to discuss.

Marketing of raw cotton is likely to be vitally affected by another post-war development, viz., the stabilization of agricultural prices, if at all it materializes. During the war, cotton prices were subjected to various control measures. The floor-ceiling method was tried, and in the course of its operation Government had to purchase large quantities of cotton. The Policy Sub-Committee on Stabilization of Agricultural Prices has submitted its report but the Government's policy on the question is not yet settled. Anyway marketing under price control will not be the same as marketing undertaken with a view to arriving at a price. In the former, price conditions marketing ; in the latter marketing determines price.

The partitioning of the country and the non-accession by a Major Indian State have complicated the problem in a manner which makes it difficult to forecast the repercussions. During 1945-46, out of the total crop of 3·4 million bales, areas now under Pakistan produced 1·4 million bales and Hyderabad

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produced 261,000. Staple-wise the position is as follows:

### ON THE BASIS OF 1945-46 CROP

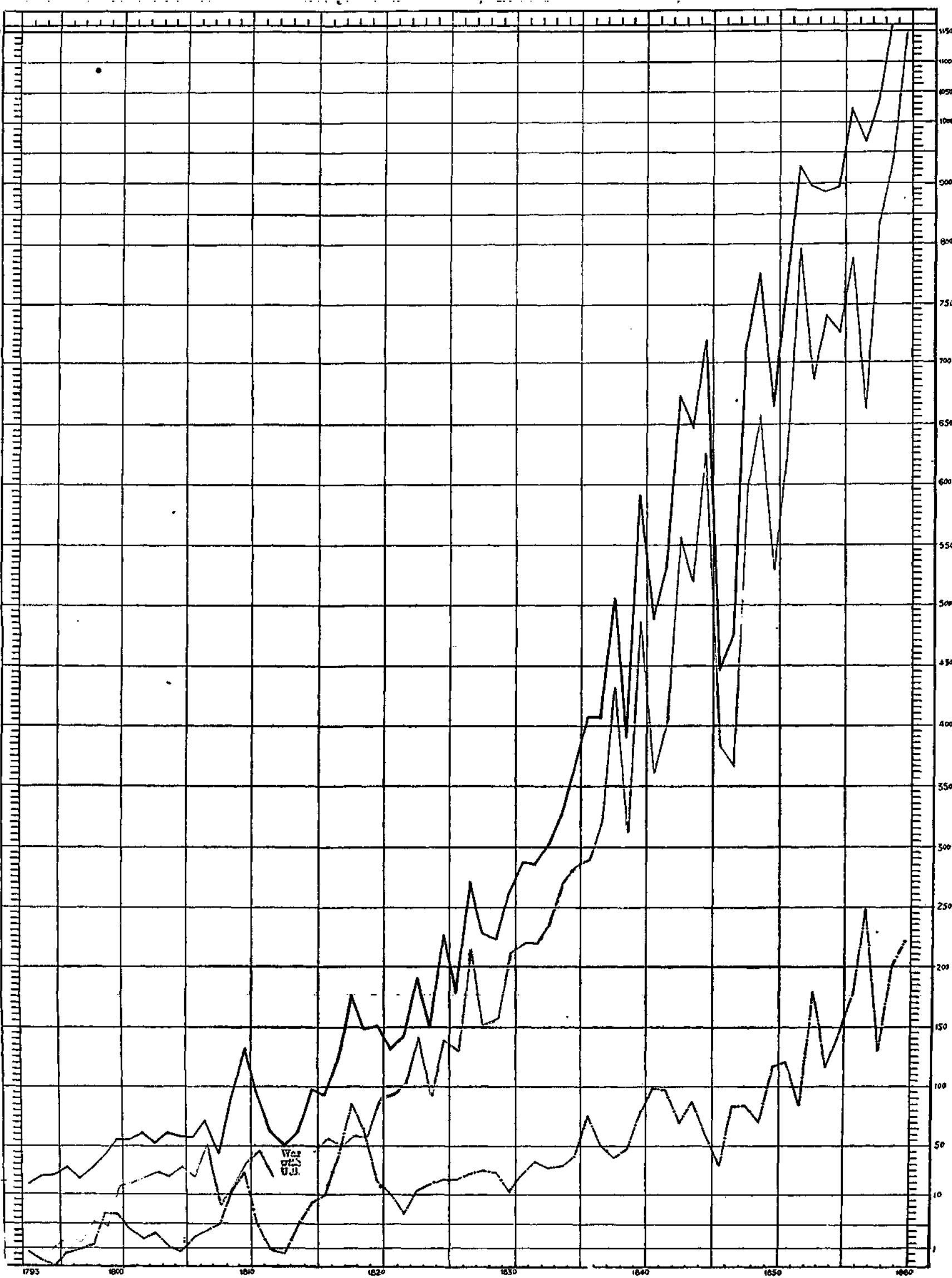
Staple		Thousand bales		
		Indian Union	Pakistan	Hyderabad
Short (below 7/8")	..	807	238	169
Medium (7/8" to 1")	..	962	1,089	102
Long (over 1")	..	23	58	..

### ON THE BASIS OF 1938-39 CROP

Staple		Thousand bales		
		Indian Union	Pakistan	Hyderabad
Short (below 7/8")	..	2,380	429	380
Medium (7/8" to 1")	..	707	956	127
Long (over 1")	..	..	72	..

We hope that the political partition will make no difference as far as the trade between different regions is concerned. If, however political frontiers degenerate into economic barriers, the Union Government will have to seriously reconsider its cotton policy. Most of the textile mills will be in the Indian Union. These have been consuming, during recent years, nearly 4 million bales of Indian cotton. The Indian Union's cotton production on the 1945-46 basis would be only 1.8 million bales. The Government, therefore, will have to decide whether it would like to grow more cotton within its frontiers. Secondly, it will have also to decide whether it would retain the pre-partition ratio of short and long staple cotton or revise it in favour of the latter. Are there technological conditions favourable to such a revision? Once again, we submit that any attempt to lay down a line will be beyond the scope of this work.

In pre-war days, the Cotton Exchanges of New York, Liverpool, and Bombay constituted the nerve-centres of the world market in raw cotton. These countries have different, though in a way complementary, raw cotton problems. The United States is the biggest producer of cotton but has to depend on exports for the disposal of as much as 40 to 50% of its annual production. The United Kingdom grows no cotton and has to import from abroad every bale of its 2 to 3 million bales consumption. Normally it procured 50% of its requirements from the United States of America. India in pre-war



QUANTITIES OF COTTON EXPORTED FROM CALCUTTA, MADRAS AND BOMBAY  
TO GREAT BRITAIN AND TO CHINA

Millions of lbs.

Millions of lbs.

